Canadian-American Free Trade: (The Sequel)

Historical, Political and Economic Dimensions

Edited by
A.R. Riggs
and Tom Velk

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North American Studies
McGill University

Founded in 1968, North American Studies is a popular interdisciplinary major at McGill. Proceeding from the premise that similarities between the Canadian and American peoples are greater than their differences, its goal is to provide undergraduates with a comprehensive view of the growth and achievements of North American civilization. The first year of the program for an undergraduate requires a traditional mix of history and literature (with the addition of some political science/economics), and the remainder includes courses in economics, political science, history and arts and letters. All majors are required to take a capstone seminar, which has been offered each year since the studies were instituted.

During the last decade North American Studies has added innovative new dimensions to its offerings. Qualified students are urged to take advantage of exchange agreements with Dartmouth College, Duke University, Georgetown, American University and Carleton (Ottawa). The government internship program that American University offers in Washington, D.C. has been especially popular – exchange agreements also include faculty members.

A generous gift from a friend of the university, Mrs. George Packer Berry, provides the program with annual symposia, bringing in dozens of scholars of international reputation. Known today as the Wilkinson Lectures, they have dealt with such topics as Liberty, Equality and Authority (1983); The Liberal Tradition in America Revisited (1984); Mark Twain (1986); and two elaborate conferences in a continuing series that has, thus far, brought to McGill more than 30 speakers on Canadian-American free trade (1987).

North American Studies is operated by a Director, but policy and decision-making are the responsibility of the North American Studies Committee, composed of staff and students under the Faculty of Arts.

Foreword

The bilateral negotiations between Canada and the United States launched in 1986 precipitated an intense debate in Canada. The intensity of that debate has not subsided since the conclusion of the negotiations in October 1987 and the signing of the Agreement by Prime Minister Mulroney and President Reagan on January 2, 1988. As a contribution to this debate the Institute has published a series of studies and conference proceedings which document the stages in the process and are intended to illuminate the key issues. In this activity, the Institute has worked partly on its own, publishing conference volumes such as *Assessing the Canada-U.S. Free Trade Agreement* edited by Murray Smith and Frank Stone, which evokes the intensity of the Canadian debate immediately after the climax of the free trade negotiations on October 3, 1987. In addition, however, the Institute has collaborated extensively with other organizations including the Brookings Institution and the Institute for International Economics in Washington, D.C. as well as several Canadian universities.

The title of the present volume, *Canadian-American Free Trade (The Sequel)*, reflects both the fact that this conference was held in November 1987 after the bilateral negotiations were concluded, as well as the fact that it is the second volume in a series published by the Institute in association with the Centre for North American Studies at McGill University and edited by A.R. Riggs and Tom Velk. It follows up the historical perspectives on Canada-U.S. relations contained in the previous volume with a more concrete examination of the preliminary text of the proposed agreement itself.

Among the features that distinguish this volume from others published on the free trade debate is its examination of the history of the 1911 episode when the Canadian

Government of the day was defeated in an election campaign and the Reciprocity Treaty which had been negotiated with the United States and ratified by Congress was never ratified in Canada. Parallels can be drawn to the present situation, where the United States Congress has passed legislation implementing the Free Trade Agreement, while Canadian implementation may be delayed or defeated in the Senate and could become a central issue in an election campaign in Canada, might be noted.

Once again the Institute for Research on Public Policy is pleased to publish these proceedings of the November 1987 conference in Montreal as a further contribution to the understanding and public debate of policy issues of vital concern to Canadians.

Rod Dobell
President

September 1988

Avant-propos

Les négociations bilatérales entre le Canada et les États-Unis entamées en 1986 ont provoqué un débat passionné au Canada. Cet intérêt n'a pas diminué après la conclusion des négociations survenue en octobre 1987 et la signature de l'accord par le Premier Ministre Mulroney et le Président Reagan le 2 janvier 1988. En contribution à ce débat, l'Institut a publié une série d'études et de comptes rendus de congrès qui, en documentant les différentes étapes du processus, mettent en valeur les questions principales. Dans cette tâche, l'Institut a parfois travaillé seul, notamment pour la publication d'actes de congrès tels que *Assessing the Canada-U.S. Free Trade Agreement*, édité par Murray Smith et Frank Stone, une évocation de l'intensité du débat canadien à la suite de l'aboutissement des négociations sur le libre-échange le 3 octobre 1987. L'Institut a aussi largement collaboré avec d'autres organismes, entre autres l'Institut Brookings et l'Institut d'économie internationale de Washington, D.C., ainsi qu'avec plusieurs universités canadiennes.

Le titre du présent recueil, *Canadian-American Free Trade (The Sequel)*, évoque à la fois le fait que ce congrès s'est tenu en novembre 1987, donc après la conclusion des négociations bilatérales, ainsi que le fait qu'il s'agit là du second volume d'une série publiée par l'Institut en association avec le Centre des études nord-américaines de l'Université McGill et éditée par A.R. Riggs et Tom Velk. Faisant suite aux perspectives historiques des relations Canada-E.U. exposées dans le premier volume, ce recueil examine en détail le texte préliminaire de la proposition même de l'accord.

Cet ouvrage se distingue d'autres ouvrages publiés sur le débat du libre-échange du fait qu'il examine l'épisode historique de 1911, lorsque le gouvernement canadien de

l'époque s'est fait battre dans sa campagne électorale et que le Traité de réciprocité, qui avait été négocié avec les États-Unis et ratifié par le Congrès, n'a jamais été entériné au Canada. La situation actuelle n'est pas sans rappeler cette époque-là, puisque le Congrès américain a déjà passé une loi autorisant l'application de l'Accord de libre-échange, alors qu'au Canada cette mise en vigueur risque fort d'être différée ou même refusée par le Sénat et de devenir ainsi la question centrale de la prochaine campagne électorale.

L'Institut de recherches politiques est heureux de publier les travaux du congrès de Montréal de novembre 1987 et de poursuivre ainsi sa contribution en faveur de la compréhension des questions politiques d'une importance vitale pour les Canadiens et de l'élargissement du débat public sur ces questions.

Rod Dobell
Président

Septembre 1988

Biographical Sketches of Authors

The Honourable Lloyd Axworthy is a Member of Parliament for Winnipeg-Fort Garry, and Liberal Critic for International Trade.

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Gordon Ritchie is Ambassador and Deputy Chief Trade Negotiator for Canada.

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Acknowledgements

North American Studies, McGill University, is pleased to have sponsored a second Wilkinson international free trade conference on November 13, 1987. We wish to express our gratitude to Mrs. George Packer Berry of Princeton, New Jersey, who has endowed the Wilkinson series. Other generous support was received from McGill's Arts and Sciences Undergraduate Society, the Political Science Students Association, the Economics Students' Association and the Department of Economics. We also want to thank Vice Principals S.O. Freedman and Paul Davenport for their participation.

L'économie politique du libre-échange: un survol

Professeur Paul Davenport
Université McGill

Ce volume réunit le texte des onze allocutions prononcées à l'occasion de la deuxième conférence Wilkinson sur le libre-échange qui s'est tenue à l'université McGill le 13 novembre 1987. Ces textes abordent ce qui, depuis plus de deux ans, figure au coeur même du débat sur l'économie politique canadienne: les avantages et inconvénients qu'il y a à conclure officiellement un accord de libre-échange avec les États-Unis. La plupart des auteurs sont canadiens et analysent ce problème sous un angle strictement canadien: quels sont les avantages d'un tel accord pour le Canada et quels en sont les dangers?

Les points de vue exprimés dans ces articles sont divers et constituent dans leur ensemble un important survol de l'économie politique du libre-échange. Les avantages et les risques économiques inhérents à l'accord proposé y sont débattus de même que l'immense difficulté qui consiste à chiffrer avec précision les problèmes purement économiques que soulève une plus grande liberté du commerce ainsi que les menaces qu'un tel accord fait peser sur la souveraineté politique et l'originalité culturelle du Canada. Les leçons fournies par l'intégration économique européenne, de même que la relation existant entre le libre-échange et les politiques économiques du Canada, y sont également abordées. Avant d'étudier chacun de ces textes individuellement, il est utile de passer rapidement en revue le contexte au sein duquel les problèmes commerciaux ont été débattus au Canada au cours des dernières années.

Le contexte économique du débat sur le libre-échange

Les épreuves auxquelles ont été soumises les économies occidentales depuis 1973 ont eu un impact considérable sur les politiques économiques, puisqu'elles ont incité les divers États concernés à mettre en oeuvre des politiques novatrices visant à rétablir les taux de croissance et de chômage que ces derniers avaient connu dans les années 1950 et 1960. Au Canada, le taux de croissance du produit intérieur brut est passé de 5,5% entre 1947 et 1973 à 3,4% entre 1973 et 1987. La flambée des cours du pétrole de 1972-1973 et de 1979-1980 est en grande partie responsable du ralentissement de la croissance et du fléchissement, au Canada après 1977, du taux d'intérêt réel et du taux d'intérêt nominal élevé. Depuis 1976, au Canada, le taux de chômage annuel dépasse le cap des 7% et, quoique récemment ce dernier ait fort heureusement diminué, il se situait toujours au-dessus de 7,5% à la mi-1988, dépassant de deux points de pourcentage le taux de chômage aux États-Unis.

Les taux de chômage varient de façon marquée entre les différentes régions du Canada, ce qui complique singulièrement l'établissement d'une politique économique nationale. Au cours des deux dernières décennies, les taux de chômage régionaux, sur une base relative, ont évolué de façon très diverse; ainsi, la Colombie-Britannique et l'Alberta ont connu une croissance rapide de l'emploi pendant les années 1970 à la suite de la hausse des cours des matières énergétiques; toutefois, leurs taux de chômage ont considérablement augmenté à la fin du boom énergétique. Ces deux provinces figurent parmi les partisans les plus tenaces du libre-échange, espérant par là même s'assurer des marchés américains plus stables pour y écouler leurs ressources naturelles, ainsi qu'un meilleur accès aux produits manufacturés américains.

La plupart des industries manufacturières canadiennes siègent en Ontario et au Québec, provinces qui se sont toujours montrées réticentes à l'idée du libre-échange dans la mesure où leur base industrielle semble être menacée par la vitalité économique de nombreuses industries américaines. Toutefois, au cours des dernières années, les deux grands partis politiques du Québec ont manifesté un intérêt croissant à l'égard du libre-échange. Le premier Ministre, M. Robert Bourassa, est désormais un fervent partisan de ce concept, bien qu'il émette de nombreuses réserves sur certains des aspects de l'Accord. Le premier Ministre de l'Ontario, M. David Peterson, maintient quant à lui l'opposition de sa province et figure parmi les critiques les plus acharnés de ce projet. A l'échelle nationale, l'inégalité des performances économiques affichées par les différentes provinces, la disparité de leurs ressources naturelles et de leurs industries manufacturières, rendent difficile pour le gouvernement fédéral la formulation de politiques économiques nationales, notamment au chapitre de la politique industrielle et de la libéralisation internationale des échanges commerciaux.

La productivité du travail en termes de production réelle par travailleur est au coeur même du débat sur le libre-échange: la libéralisation des échanges commerciaux avec les États-Unis renforcera-t-elle la productivité du Canada en l'exposant à une plus grande concurrence ou encore, les produits bon marché en provenance des États-Unis submergeront-ils simplement l'industrie canadienne, entraînant de ce fait la mutation

des investissements et de la main-d'oeuvre vers les États-Unis où la productivité est supérieure?

Dans la plupart des nations industrialisées, la croissance de la productivité a considérablement ralenti au cours des années 1970. Au Canada, la productivité nationale s'est accrue de plus de deux pour cent par an en moyenne au cours des 25 années précédant 1973, puis a amorcé une période de stagnation pendant la décennie postérieure à 1973. Bien que les chocs pétroliers des années 1970 soient largement responsables de ce ralentissement, il semble que les causes fondamentales se situent davantage au niveau des mutations technologiques et des relations du travail, lesquelles font l'objet d'intenses débats dans les pays industrialisés. L'économiste canadien Donald Daly a récemment estimé que le produit réel par heure du travail dans les industries manufacturières au Canada était de 30% inférieur à celui des Etats-Unis en 1986. Les problèmes de productivité auxquels doit faire face le Canada ont été exacerbés par l'effondrement, au début des années 1980, des investissements réels effectués dans les entreprises: l'amélioration de la croissance de la productivité du Canada pendant la décennie à venir sera étroitement tributaire de l'investissement réalisé sous forme d'infrastructure et d'équipement. Les partisans du libre-échange pensent qu'un accord commercial renforcera la productivité au Canada en favorisant des cycles de production plus longs, une plus grande spécialisation et finalement un regain de l'investissement, alors que ses opposants prévoient le déclin de l'investissement dans les industries canadiennes, lequel sera évidemment porteur de conséquences négatives pour la croissance et la productivité au Canada.

Globalement, la période de ralentissement de la croissance et de chômage qui a frappé les nations industrialisées depuis 1973 a, semble-t-il, amené le Canada à envisager plus sérieusement la libéralisation de ses échanges avec les États-Unis, quoique les difficultés économiques qui prévalent actuellement ont multiplié les craintes de perte au niveau de l'emploi et des revenus pendant la période de transition préliminaire au libre-échange. Les partisans du libre-échange envisagent cette transition comme une étape nécessaire à la revitalisation des taux de croissance, de production, de productivité et de revenu réel. Ses adversaires estiment qu'avec un taux de chômage dépassant déjà les limites du raisonnable, le Canada ne peut guère se permettre les perturbations économiques supplémentaires qu'entrainera l'instauration d'un système de libre-échange avec les États-Unis.

Le Rapport de la Commission Royale Macdonald

La plupart des données économiques auxquelles les auteurs de ces articles se rapportent sont analysées dans le *Rapport* de la Commission Royale d'enquête sur l'Union économique et les perspectiver de développement du Canada, publié en septembre 1985. La Commission, qui était présidée par M. Donald Macdonald, appelle de ses voeux l'établisssement d'un système de libre-échange entre le Canada et les États-Unis en soulignant qu'il s'agit là d'une étape essentielle à l'amélioration de la croissance et de la performance économique du Canada.

L'analyse économique des avantages du libre-échange relève traditionnellement de la *micro-économie*: en permettant à chaque partenaire commercial de se spécialiser dans ce qu'il produit à des coûts relativement modestes, l'efficacité globale du système s'en trouve accrue. La définition que la Commission MacDonald donne du libre-échange avec les États-Unis revêt toutefois une connotation *macro-économique* forte, sinon dominante: le libre-échange est envisagé comme un préliminaire essentiel à l'amélioration de la conjoncture économique globale et à la réalisation d'un rendement macro-économique satisfaisant au chapitre de la croissance économique, de la productivité, de l'emploi, du chômage, de l'investissement et des exportations. De plus, le libre-échange est perçu comme l'élément d'un ensemble plus vaste de modifications essentielles qu'il convient d'apporter à la politique économique, aux institutions politiques et aux relations du travail, lesquelles sont décrites en détail dans les 1900 pages du *Rapport* de la Commission Royale.

Le *Rapport* insiste notamment sur les conclusions de Donald Daly, de Richard Harris et de nombreux autres économistes canadiens voulant que la productivité des industries canadiennes soit victime de cycles de production trop courts et d'économies d'échelle inexploitées. Le rythme rapide des mutations technologiques rend ces problèmes encore plus aigus: les industriels canadiens doivent avoir plus facilement accès à la technologie de pointe produite à l'étranger, laquelle est nécessaire à leur production, ainsi qu'à des marchés plus vastes pour pouvoir produire de la technologie de pointe à des prix concurrentiels. Confiné à son propre marché ou aux échanges avec les États-Unis que gêne un regain de protectionnisme bilatéral, l'avenir économique du Canada, en termes de productivité et de mutation technologique, n'est guère brillant.

L'un des thèmes sous-jacents du *Rapport* veut que la politique commerciale du Canada et des États-Unis ne fasse guère l'objet d'un statu quo. Le changement semble inévitable, qu'il se traduise par le renforcement du protectionnisme ou par la libéralisation du commerce. Le *Rapport* analyse l'exédent croissant de la balance commerciale que le Canada enregistre depuis 1977 dans le cadre de ses échanges avec les États-Unis. Les soldes affichés par le Canada ont amené les États-Unis à préconiser l'instauration de droits de douane ou de quotas, notamment dans le secteur des produits forestiers et de la pêche et la renégociation, voire la suppression, du Pacte de l'automobile États-Unis - Canada. Dans les nombreux secteurs où le Canada enregistre un solde négatif, le solde positif de la balance américaine a considérablement décliné – il en va ainsi pour l'agriculture et l'agro-alimentaire, la machinerie et l'équipement. Globalement, la balance commerciale du Canada, dans le cadre de ses échanges avec les États-Unis, s'est accrue de 9,2 milliards de dollars entre 1978 et 1983, dont 5,8 milliards de dollars provenaient de secteurs affichant un solde positif en 1983 et 3,4 milliards de dollars de secteurs dont le solde était négatif en 1983.

En termes politiques, peu importe que l'augmentation du déficit commercial américain dans le cadre des échanges avec le Canada et d'autres pays ait été le fait de la supériorité du dollar américain par rapport aux autres devises pendant les années 80 – les pressions protectionnistes aux États-Unis se faisaient de toute façon de plus en plus marquées, au vu de la baisse des exportations et de l'augmentation des importations auxquelles assistaient agriculteurs et industriels. La vigueur de notre économie étant déjà largement tributaire des ventes que nous réalisons aux États-Unis, les membres de

la Commission préconisent la stabilisation de notre accès au marché américain par le biais d'un Accord de libre-échange avant que nos exportations ne soient freinées par l'application croissante de droits de douane, de quotas et d'autres restrictions.

Points de vue sur le débat autour du libre-échange

Nous allons désormais passer à l'examen des principaux thèmes abordés par les conférenciers à McGill. La conférence s'est tenue le 13 novembre 1987, date charnière entre la définition des *éléments* de l'Accord de libre-échange (le 4 octobre 1987) et la signature officielle de *l'Accord de libre-échange entre le Canada et les États-Unis* qui a eu lieu le 1er janvier 1988. Par conséquent, les auteurs ne disposaient pas du texte final de l'*Accord* lorsqu'ils ont rédigé leurs allocutions. Il serait donc tentant de comparer l'analyse qu'ils donnent du document disponible en novembre (*Eléments de l'Accord: Transcriptions préliminaires*), au texte de l'*Accord* final.

J'ai toutefois résisté à cette tentation, préférant au contraire passer en revue, tels qu'ils le sont, les discours extrêmement intéressants prononcés lors de cette conférence, sans en référer dans l'ensemble aux événements subséquents. Par conséquent, toute référence à "l'Accord proposé" ou simplement à "l'Accord" se rapporte au document intitulé *Éléments* qui était à la disposition des auteurs. Un certain nombre de grands thèmes émergent des onze allocutions prononcées pendant la conférence. J'en étudierai six. Ceux-ci traitent de la portée de l'Accord, de la menace que ce dernier fait peser sur la souveraineté politique et culturelle du Canada, des avantages économiques que le Canada pourra en tirer, du protectionnisme américain et des dispositions relatives au règlement des différends, de la nature du mandat de M. Mulroney dans le cadre de la négociation de cet Accord et enfin de la nécessité d'éviter toute rhétorique dans l'évaluation de l'Accord proposé.

L'Accord proposé est très vaste. Tel est le thème central des articles de MM. Gordon Ritchie et Tim Skud. Les deux négociateurs décrivent les différentes mesures visées par l'Accord (remarquons que toutes ces dispositions figurent dans le *texte* de 315 pages publié par les Affaires extérieures après la conférence):

- éliminer progressivement les droits de douane au cours des dix prochaines années (sauf quelques exceptions pour les produits agricoles),
- empêcher le plus possible les deux parties d'imposer des quotas ou des embargos,
- éviter l'utilisation de normes techniques comme obstacles aux échanges commerciaux,
- éliminer la plupart des droits de douane sur les produits agricoles sur une période de 10 ans, avec la possibilité de rétablir temporairement des droits de douane sur les fruits et légumes frais,
- améliorer le commerce des boissons alcoolisées, dont le vin et le whisky (selon M. Ritchie "chaque partie reconnait l'originalité du whisky canadien et du bourbon américain"),

- appliquer un règlement général sur les restrictions dues à *des pénuries*. Toutes les exportations, y compris celles de produits énergétiques, sont visées par ce règlement. Ainsi toutes restrictions des exportations de produits énergétiques vers les États-Unis résultant d'une pénurie doivent être proportionnelles aux restrictions imposées aux consommateurs canadiens,
- éliminer progressivement les droits de douane sur les produits automobiles,
- empêcher toute *discrimination* dans le secteur des services, dont les services financiers, les services professionnels, le tourisme, le transport et les télécommunications
- porter progressivement le seuil d'examen des acquisitions directes à 150 millions de dollars (Investissement Canada),
- créer un mécanisme officiel de *règlement des différends* avec possibilité d'arbitrage à force exécutoire, moyennant l'accord mutuel des parties.

MM. Ritchie et Skud ne manquent pas de mentionner les lacunes de l'Accord: maintien, dans les deux pays, des lois sur le subventionnement et le dumping, omission du problème de la propriété intellectuelle, caractère facultatif des dispositions régissant le règlement des différends, lesquelles ne s'appliquent que sur consentement mutuel des parties, ouverture insuffisante des marchés publics à la concurrence, exclusion de certaines marchandises (dont la bière). Toutefois, en dépit de toutes ces lacunes, l'Accord est vaste: les nombreux observateurs (y compris moi-même) qui ont assisté aux négociations de l'année dernière pensaient, à tort, qu'après avoir infligé quelques coups aux vaches sacrées que sont l'agriculture, les services et l'alcool, les négociateurs se retrancheraient prudemment vers la production manufacturière traditionnelle, se contentant tout bonnement d'éliminer les droits de douane encore en vigueur dans ce secteur. Nous nous sommes fourvoyés. A ce titre donc, les partisans d'une initiative de libre-échange peuvent féliciter les négociateurs et les hommes politiques.

L'Accord risque de porter ombrage à la souveraineté culturelle et politique du Canada. Cet aspect de l'Accord est celui qui préoccupe le plus les adversaires canadiens du libre-échange: l'Accord leur apparaît comme une invitation lancée aux États-Unis de participer étroitement à tous les aspects de la vie économique canadienne, menaçant par là même l'aptitude du Canada à être le maître de son propre destin. Dans sa description des coûts de l'Accord, l'Honorable Lloyd Axworthy indique que la réduction des critères de sélection au chapitre de l'investissement, l'intégration des services et la politique énergétique globale, ne devraient certainement pas faire partie d'un Accord de libre-échange avec les États-Unis car cela risque d'enfreindre l'aptitude du Canada à prendre des décisions politiques indépendantes.

M. Axworthy reprend les critiques que M. Mitchell Sharp a formulées devant le comité parlementaire sur les Affaires extérieures en indiquant que l'Accord menace d'accélérer "l'américanisation du Canada." A l'argument voulant que le libre-échange soit créateur d'emplois pour les Canadiens, M. Axworthy rétorque que la perte de souveraineté inhérente à l'Accord sapera notre aptitude à élaborer et à mettre en oeuvre une politique économique pour l'emploi. Il estime que l'Accord confère les pleins

pouvoirs aux États-Unis et au secteur privé; M. Axworthy conclut en nous conviant à ne pas laisser au seul marché la possibilité de déterminer l'avenir du Canada et en nous invitant à reconnaître le rôle essentiel que joue le secteur public au niveau de l'emploi et du développement harmonieux de chaque région.

M. Murray Smith trace un tableau très différent de la souveraineté canadienne sous le régime du libre-échange, déclarant avec force qu'une économie plus ouverte ne nous privera pas de notre aptitude à définir des politiques économiques et que le Canada conservera son propre système d'imposition, ses programmes sociaux et son système d'assurance-chômage. En fait, M. Smith pense qu'une libéralisation des échanges pourrait *accroitre* notre pouvoir au chapitre des politiques sociales et de la redistribution des revenus, insistant sur le fait que notre marge de manoeuvre n'en sera que plus grande à cet égard. Pour lui, le libre-échange ne conduit pas fatalement à une intégration économique totale; tel n'a pas été le cas avec l'Association européenne de libre-échange, les pays concernés ne l'ayant pas souhaitée.

M. William Johnson envisage les problèmes de la souveraineté et de l'identité sous un angle entièrement différent. En effet, son article porte essentiellement sur l'identité culturelle des auteurs canadiens qui cherchent souvent à prouver que les Canadiens ne sont pas des Américains: d'après M. Johnson, "nous sommes différents." Il cite pour ce faire Margaret Atwood, Eric Nicol, George Bowering, C.J. Newmand, Robin Mathews et d'autres auteurs et démontre ainsi que "nous sommes la première nation anti-américaine" et que les États-Unis figurent au nombre des sujets de notre "démonologie". M. Johnson indique que, "bien que nous soyons pour la plupart vaguement conscients de ce genre de sentiment", une conférence sur le libre-échange ne saurait passer outre cet aspect de la question, au risque d'être totalement irréaliste. Sur ce point, laissons le mot de la fin au poète, Dennis Lee, cité par M. Johnson:

> The dreams of Tory origins,
> Is full of lies and blanks;
> Though what remains when it is gone,
> To prove that we're not Yanks?

La plupart des économistes s'attendent à ce que l'Accord favorise la hausse de la productivité et des revenus réels. Les arguments économiques en faveur de l'Accord sont énoncés dans plusieurs allocutions, dont celle du professeur Richard Harris, auteur d'études fort intéressantes sur les répercussions économiques du libre-échange. La réduction des droits de douane que préconise l'Accord et la libéralisation des restrictions sur l'investissement étranger au Canada recueillent la faveur du professeur Harris qui estime que la réduction des droits de douane, à elle seule, augmentera de 3 à 4 pour cent la productivité, les salaires réels de même que les revenus réels, ce qui représente environ 20 milliards de dollars pour l'ensemble du Canada. Des cycles de production plus longs, ainsi qu'une réduction du nombre des petites firmes relativement inefficaces, favoriseront l'accroissement de la productivité, laquelle devrait aider le Canada à concurrencer avec plus d'efficacité les pays où la main-d'oeuvre est bon marché.

Le professeur Harris nous met toutefois en garde contre tout excès d'optimisme. Il doute que le libre-échange puisse être créateur d'emplois ou permette de réduire le taux

de chômage, étant donné que l'économie canadienne est, à son avis, déjà très proche du plein-emploi. Ainsi, prévoir des gains ou des pertes importants au niveau de l'emploi n'est, théoriquement ou empiriquement, guère convaincant. M. Harris pense que le libre-échange renforcera l'unité nationale en aplanissant les inégalités liées aux droits de douane, dont l'Ontario est actuellement le principal bénéficiaire, au détriment des autres provinces.

Rares sont les personnes qui donneront aux économistes le dernier mot sur cette question essentielle, appliquant par là même à la politique économique et aux économistes le dicton voulant que "la guerre soit trop importante pour être confiée aux généraux." M. Axworthy estime que les exceptions figurant dans l'Accord sont trop nombreuses pour que celui-ci soit largement profitable au Canada, d'autant plus que les États-Unis conservent le droit de prélever des droits compensateurs; parallèlement il pense que l'Accord nuira à de nombreuses industries canadiennes, notamment à l'horticulture, à l'industrie textile et à l'industrie des pièces automobiles. Il estime que la poursuite d'une libéralisation commerciale multilatérale est plus intéressante en termes d'avantages économiques.

Les dispositions relatives au règlement des différends sont incomplètes. Le professeur Watson énumère les aspects positifs du mécanisme de règlement des différends: consultations obligatoires sur les modifications apportées aux lois commerciales, droit de faire évaluer ces modifications par un groupe mixte d'experts; création d'une commission mixte du commerce canado-américain pour superviser la bonne application de l'Accord; et existence de commissions d'enquête sur les droits compensateurs et anti-dumping dont les décisions ont force exécutoire. Le problème de ces commissions d'enquête, comme le fait observer le professeur Watson, est qu'elles ne peuvent que faire *appliquer* les lois en vigueur dans chaque pays. Or, nous avons espéré soit que le Canada soit exempté des droits compensateurs et anti-dumping des États-Unis, soit au moins qu'il soit possible d'obtenir un arbitrage obligatoire sur la pertinence de la loi américaine au regard de l'Accord, par opposition à son application. Il indique que l'Accord soumet le mécanisme de règlement des différends à une période d'essai de cinq et sept ans et espère que pendant cette période, celui-ci dépolitisera les différends commerciaux entre les deux pays.

Le professeur Harris remarque que l'Accord ne garantit à aucune des parties l'accès au marché de l'autre pays, les lois sur "le libre marché" restant lettre morte dans les deux pays, dans le but de permettre l'instauration de droits anti-dumping et compensateurs et de différentes garanties contre les importations. Dans la mesure où l'accès au marché américain figurait au nombre des principaux objectifs du Canada, il s'agit là d'une lacune importante de l'Accord. Le professeur Harris pense que les dispositions concernant le règlement des différends, telles que stipulées dans l'Accord, ne feront que créer un palier administratif supplémentaire tributaire des activités juridiques onéreuses liées à la défense des mesures protectionnistes ou à la lutte contre ces dernières.

Le mandat de M. Mulroney en ce qui a trait à la mise en oeuvre de cet Accord est discutable. C'est en partie sur ce thème que porte l'allocution de M. Carl Beigie. Ce

dernier estime que le débat sur le libre-échange, à l'instar de celui sur la souveraineté du Québec, pose fondamentalement un problème de souveraineté-association. Sa solution devrait être soumise aux Canadiens par voie de référendum, comme cela a été fait précédemment au Québec. Pendant la période de questions et réponses suivant son allocution, M. Axworthy a fait remarquer que le libre-échange ne figurait pas dans le programme électoral des conservateurs et a défié M. Mulroney de soumettre l'Accord proposé au verdict des urnes afin de permettre aux Canadiens d'exprimer leur avis sur ce sujet.

M. Beigie estime qu'une élection n'est guère appropriée pour une consultation de ce genre, prétextant qu'avec trois partis politiques en lice, les conservateurs pourraient être réélus même si la majorité de la population s'opposait au libre-échange. Il convient de remarquer que l'inverse est également plausible: un gouvernement conservateur impopulaire pourrait très bien être battu aux élections même si une majorité de Canadiens se prononcaient en faveur du libre-échange. MM. Axworthy et Beigie déplorent le caractère superficiel du débat sur le libre-échange au Canada, le premier parlant d'un "mariage forcé", le second terminant son allocution par ces mots: "rien ne me déplaît plus aujourd'hui, en tant que Canadien, que la manière dont le débat sur le Canada et les États-Unis est mené dans notre pays."

Il est important de confiner dans les limites du raisonnable la rhétorique du débat. Cette remarque revient dans plusieurs articles. Le professeur Harris critique le ton démesurément optimiste du débat dans son ensemble et le ridicule des arguments formulés des deux côtés. Le professeur Watson souligne que l'Accord n'est pas "aussi important qu'on veut bien le croire", dans la mesure où de nombreux éléments en sont exclus et où il ne menace aucunement la souveraineté canadienne. Selon lui, le ciel ne tombera pas non plus sur la tête des Canadiens si l'Accord n'est pas signé: les réactions protectionnistes américaines, déjà sur le déclin suite à la baisse amorcée par le dollar américain depuis deux ans, devraient s'étioler encore davantage après les élections de 1988.

L'outrance des arguments formulés par les tenants et les adversaires du libre-échange peuvent simplement être le reflet d'intérêts personnels étroits émanant d'un groupe disposant de suffisamment de moyens pour véhiculer son message auprès du public. Voilà la leçon qu'il nous est possible de tirer de l'article des professeurs A.R. Riggs et Tom Velk, qui analysent l'opposition à la proposition d'accord de réciprocité entre le Canada et les États-Unis soumis au Congrès par le président William Howard Taft en janvier 1911. L'un de ses adversaires était Nahum J. Bachelder, ancien gouverneur du New Hampshire et "Master" de la National Grange entre 1905 et 1911; la Grange était alors le principal regroupement d'agriculteurs. Les audiences tenues en 1911 devant le Comité sénatorial sur les finances permettent toutefois d'établir que, loin de représenter seulement les agriculteurs, Bachelder faisait campagne contre l'Accord sous la direction de deux "lobbyistes" professionnels de New York, Joseph H. Allen et Whidden Graham, lesquels étaient subventionnés par de grandes industries américaines opposées à l'Accord. Parmi celles-ci figurait l'International Paper Company, qui versa un salaire mensuel de 1 000 $ (sans compter les dépenses) à Allen et Graham pendant les six mois que dura leur campagne. En juillet, le Sénat et la Chambre approuvaient

l'Accord. Le Canada le rejetait toutefois après la défaite de Wilfrid Laurier aux élections fédérales de 1911.

La mise en garde contre toute rhétorique échevelée est peut-être plus éloquente dans l'article du professeur Irving Brecher qui fournit un certain nombre d'exemples d'exagération des deux côtés de la frontière. M. Brecher souhaite notamment que les Canadiens n'exagèrent pas les risques "d'américanisation" inhérents à l'Accord. D'une part, il est indéniable que les entreprises canadiennes ont suffisamment confiance en leur aptitude à jouer le jeu de la concurrence sur les marchés internationaux, sentiment que partage d'ailleurs l'opinion publique en général; d'autre part, les États-Unis, loin de vouloir américaniser le Canada, ont leurs propres chats à fouetter; comme le dit d'ailleurs si bien l'Ambassadeur Gotlieb, cité par M. Brecher, les États-Unis se distinguent par leur "pluralisme, leur esprit concurrentiel, leur goût de la confrontation et du litige, leur turbulence. Ils sont en outre totalement absorbés par le gouvernement de leurs propres affaires, tâche difficile s'il en est".

Conclusion: l'épineux problème de la transition vers le libre-échange

Ceux qui, comme l'auteur, pensent que l'Accord de libre-échange est, dans l'ensemble, une démarche positive pour le Canada, devraient néanmoins être conscients des conséquences pour le moins disparates que celui-ci entraînera au niveau industriel et régional. La Commission Macdonald consacre une bonne partie de son rapport à la manière dont les Canadiens qui bénéficieront du libre-échange pourront, collectivement, dédommager ceux qui en pâtiront. Ainsi, un Programme temporaire d'assistance au recyclage (PTAR) est proposé pour aider les chômeurs à se recycler et à s'installer dans de nouvelles régions – mesures essentielles pour de nombreuses industries à mesure que l'Accord de libre-échange entrera en vigueur. La plupart des économistes seraient en faveur d'un programme de cet ordre, qui pourrait réduire, sans les éliminer, les divisions régionales, industrielles, et individuelles occacionnées par la transition vers le libre-échange.

Toutefois, il faut noter que, sur le plan politique, un programme temporaire d'assistance ne peut remplacer la protection que confère l'existence de barrières douanières, tant pour les personnes concernées que pour les provinces, qui verront une partie de leur force de travail utiliser les subventions versées en vertu de ce programme pour aller s'installer ailleurs. Le gouvernement du Canada devra donc se sortir de ce dilemme, à savoir de l'antagonisme entre les avantages pour une vaste majorité et les pertes que cet Accord entraînera au niveau individuel, s'il souhaite que le libre-échange devienne l'objet d'un consensus national et non pas une source de division économique et politique.

I

Introduction

The Ongoing Debate Over Free Trade

Tom Velk and A.R. Riggs

This is the second publication in a series devoted to Canadian-American free trade that stems from conferences sponsored by North American Studies, McGill University. As the full-day session convened, November 13, 1987, a transcript of the trade agreement between the United States and Canada had just been released.

Since then Prime Minister Brian Mulroney and President Ronald Reagan have signed the FTA (January 2, 1988), but it awaits legislative approval and action in both countries. Meanwhile, debate across Canada remains particularly intense, and the opposition form both Liberals and New Democrats is expected to escalate.

Contributors to our conference in November were selected with the purpose in mind of first presenting the reader with a factual outline of the agreement. Subsequent speakers were to analyze, denounce, assess, dissect and draw parallels with other free trade agreements around the world.

Thus we begin with papers defending the Free Trade Agreement and illuminating its provisions by two who were intimately involved in the 1987 negotiations. Ambassador Gordon Ritchie discusses "the biggest trade agreement ever reached between two countries... in excess of $200 billion of trade in goods and services." His purpose is to examine the specific elements of the FTA: traditional, sectoral, new and institutional. Anticipating gains for Canada that outweigh disadvantages, Ritchie concludes that there is no threat to Canada's sovereignty or independence in the FTA. Tim Skud, for the State Department in Washington, also examines various aspects of the agreement, including tariffs, investment, agriculture, government procurement, subsidies and

dumping, and services. He concludes his paper with an assessment of how the agreement might stimulate free trade around the world.

Lloyd Axworthy, Liberal critic of the FTA, presents the case against free trade by the official Parliamentary Opposition. He detects irregularities in both process and substance. Preferring multilateral or global negotiations on the issue, which have been productive in the past as a means of lowering trade and other barriers, Axworthy finds the costs of this deal far greater than the benefits. He foresees substantial injury to Canada's horticultural, textile, automotive and lumber industries, and an inevitable erosion of governmental control over the nation's destiny. Even higher growth and productivity, he says, are not assured by an agreement that would entrust Canada's future so exclusively to the marketplace.

William Johnson, in People of the Word, believes that a neglected but influential group when considering the FTA at scholarly conferences is the artistic community. Anti-Americanism, he avers, often masks the fear that free trade will lead to cultural integration. A venerable tradition in Canada, "the first anti-American country," is rooted in French-English colonial rivalries and loyalist opposition to revolution. It has been a continuing theme in English Canada's literature.

Richard Harris, an economist and free trade advocate, who has projected free trade gains for the Royal Commission on Canada's Long Term Economic Prospects, finds the FTA imperfect, but a timely improvement over the status quo, despite his reservations over the dispute settlement apparatus. William Watson also denotes the FTA imperfect, but finds cohabitation, as opposed to a formal union, "worth a try." He projects no threats to Canadian sovereignty, nor to Canadian social programs or the Auto Pact. In the areas of investment and energy Watson foresees no significant problems, and the dispute settlement mechanism is not as flawed as some would claim. According to Watson, options will remain open after five to seven years, even to scrapping the agreement.

Murray Smith of the IRPP also predicts considerable benefits to be derived for Canada under free trade. His approach, however, stresses similarities and differences when viewing the European experience with free trade areas, which contain valuable lessons for the North American debate.

Irving Brecher, a long time free trade advocate, deplores the extravagant rhetoric on both sides of the debate. He claims that both the Canadian economy and Canadian consumers stand to gain from the agreement, despite its obvious imperfections. Brecher's Free Trade Forecast includes a Canadian election fought over the issue, but he feels safe in betting that the agreement will be ratified.

Carl Beigie also wants the bombast of the debate toned down, and the agreement subjected to careful scrutiny. Skeptical of some of the projected gains made by economists, Beigie wishes to see a referendum in Canada on the issue. He is not so certain as some experts that the agreement will favorably affect Canada's growth rate. Moreover, he would not like the decision, which involves "considerable risk," to be made in haste because of an overrated protectionist threat from the United States, where attitudes should be more clearly defined before Canada proceeds.

The essay by editors under the final heading, **Some Free Trade History**, **"The Men That Corrupted Everyburg: American Farmers and the Free Trade Initiative, 1911"** is included to show that unlikely associations in political matters over key issues (such as the joining together today of Canadian Liberals and the NDP in opposition) are not a new phenomenon. When free trade between Canada and the United States underwent its first major test in the 20th century, the National Grange in the United States found itself cooperating closely with its traditional enemies, the business trusts.

The conference ended in uncertainty about the direction the debate would take in Canada. This publication, like its companion volume, is intended to inform public debate and to illuminate issues, pro and con, raised by the most significant North American economic prospect in modern times.

II

Trade Negotiators Defend the Pact

The Free Trade Agreement

Gordon Ritchie

At approximately 10 p.m. on Sunday 4 October 1987, the representatives of Canada and the United States reached agreement on the elements of a Canada - USA Free Trade Agreement (FTA)[1]. The process of translating these elements into a final text is nearly complete and it is the intention of both Heads of Government to sign the final agreement before the end of this calendar year. The next step will be the passage of the required implementing legislation in both countries followed by the exchange of instruments of ratification to bring the agreement into effect by 1 January 1989.

It has been described, accurately, as the biggest trade agreement ever reached between two countries, covering as it does in excess of $200 billion of trade in goods and services. It is also the most far-reaching, in that it not only removes all tariffs and significantly liberalizes non-tariff barriers to trade, but goes beyond, to incorporate significant sectoral arrangements for agricultural, automotive and energy trade, and breaks new ground in agreement on the regulation of trade in services and the liberalization of investment. Finally, it involves mechanisms for the binding resolution of disputes, unprecedented in any other free trade area.

To say it is the biggest and most complex agreement does not, obviously, mean that it is automatically the best! That judgement will have to await the economic and political analysis and debate which will be high on Canada's policy agenda for many months to come. A number of speakers today will be contributing their assessments. To underpin that process, I propose to take you through exactly what the Free Trade Agreement actually contains. I will do this in four steps:

- The *traditional* elements, by which I mean tariffs, customs issues, quantitative restrictions, government procurement and technical standards.
- The *sectoral* elements, notably agricultural and food products, automotive products and energy.
- The *new* elements, specifically trade in services and restriction of investment.
- The *institutional* elements, focusing on the avoidance and settlement of trade disputes.

Traditional Elements

Tariffs and Customs

I should note that already something like 78% of our exports to the United States move duty free, and about 76% of our imports are duty free. The tariffs on the remaining items average about 5% on imports into the USA and about 10% into Canada, although there are cases on both sides of significantly higher tariff "spikes."

The basic provision is that all tariffs are to be removed within ten years. Items accounting for about half our trade will be phased out in ten years, some of the balance in five years, some at once. The one exception to this general rule will be seasonal horticultural tariffs, which are triggered in event of seasonally depressed prices, and will remain in reserve for the full 20 years.

We are moving to the Harmonized System of tariff nomenclature, pursuant to commitments we made in the Tokyo Round. This system is now the accepted basis of international trade and commerce. It is much more detailed than the existing Canadian or American tariff schedules. The harmonized tariff schedules will together require something in the order of 1200 pages to reproduce.

One critical feature of a free trade arrangement (as opposed to a customs union) is the definition of rules of origin to determine which items qualify to move freely across the border under the free trade agreement.[2] Obviously, any item that is wholly produced in either country will qualify under the free trade agreement, but a lot of our products for export are manufactured in some degree from imported materials. We do not want the Americans to be able simply to trans-ship-duty-free to us product they brought in from other countries, and similarly we do not expect to be able to ship freely into their market product which has simply been brought in from other countries.

To deal with this problem, the agreement will take about 20 pages to set out new North American Rules of Origin. This is the result of a fairly complicated exercise, which has been the subject of intensive consultation with Canadian industry right across the country. The rule basically will be that a product qualifies for duty-free treatment if it is made in North America from North American materials, or otherwise, if it is substantially changed in the manufacturing process. The test will be whether as a result of this process, it moves from one heading to another specified heading of the new tariff

nomenclature. In some cases there will be a further rule that a certain proportion of the value of the product must have been manufactured in North America.

We have also agreed to eliminate or phase out duty remissions. We are phasing out duty drawback systems over five years. We are also phasing out duty waivers, certain of them immediately, some in five years and some in ten years.

Finally, I should note that we will be phasing out customs user fees. The United States recently introduced such user fees on our shipments across the border. Those will be eliminated under this agreement over a five-year period.

Quantitative Restrictions

The second traditional element is quantitative restrictions. Here essentially what we have done is built on the GATT rules on export and import controls throughout the agreement. Those GATT rules provide the circumstances under which those controls are acceptable. In very brief summary, these Gatt rules cover situations of short supply, situations where there is an international commodity agreement in force or situations where we have supply management programs.

We will continue to be able to apply export and import controls under those circumstances, but there has been some refinement of the rules. For example, the proportionality test governing the application of export controls in short supply situations will be spelled out in the agreement, to ensure that regular export customers are not shorted unduly in times of scarcity. These rules apply across the board, including trade in agriculture and in energy, which I will address in more detail in a moment.

In addition, we are eliminating certain existing restrictions. Specifically, Canada now has an embargo on used cars which has outlived its purpose. We also will eliminate our embargo on used aircraft. The Americans, for their part, have an embargo on the enrichment of Canadian uranium which will be eliminated, and one on lottery materials which will be eliminated at the end of five years. However, we are also retaining certain restrictions. We are retaining our restrictions on the export of logs and of unprocessed fish and the Americans will be retaining their restrictions under the Jones Act on imports on vessels.

Government Procurement

A third element of the traditional trade package is government procurement. As you know, that was not really addressed until quite recently under the GATT. We, with the support of the provincial governments, were prepared to look at a very comprehensive deal here, encompassing several hundreds of billions of dollars. Instead, the results have been modest indeed. Frankly, we were very disappointed that the Americans were not prepared to go further in opening up our respective government procurement markets.

In the last round of GATT negotiations a Procurement Code was established which covered certain entities in both countries whose procurements above a certain threshold were subject to the GATT rules. This agreement will simply lower that threshold between Canada and the USA from US $171,000 to US $25,000. In other words, within this range, Canadian suppliers will be treated exactly as American suppliers and vice-versa, for the entities covered by the Code.

However, the Code does not affect provincial governments and their agencies. It also excludes a number of key federal institutions, i.e. all the procurements by the Department of Transport, Department of Communications, most of the Department of Defence, the Department of Fisheries and Oceans, all Crown corporations and all other Crown agencies.

The scope of this deal is that the Americans have opened up to us a market which they estimate to be worth something over about US $3 billion and, for our part, we have opened up a market about one-fifth that size. Even these figures probably overstate the value of the deal, as I would judge that less than half of these totals would realistically be open to the other party.

Technical Standards

Finally, in this traditional package, we have technical standards. This subject is a fairly recent addition to the trade policy menu, but there is now a GATT Code on Technical Standards. We have enhanced those rules to provide that those technical barriers should not be used as disguised barriers to trade. For example, certain American states introduced a prohibition of the use of certain antibiotics, which was transparently a device to keep our livestock out of their market. We have agreed to new rules that we hope will, over time, eliminate those artificially trade-distorting barriers. This does not inhibit in any way the capacity of the Americans or ourselves to regulate under appropriate circumstances – for purposes of health and safety, consumer protection, security and what have you.

Sectoral Elements

Overlaying these general provisions, we have also agreed to specific provisions in three broad sectors of critical importance – agriculture and food products, automotive products and trade in energy.

Agriculture

Agriculture has always been an extremely difficult area of international negotiation, multilaterally in the GATT or within existing free trade arrangements. By any measure, the Canada-USA FTA encompasses a very large agreement indeed for agriculture and food products. We are eliminating agricultural tariffs over a 10-year period. Some tariffs

on some meats will be eliminated earlier and, for fruits and vegetables, we will retain a seasonal tariff measure in reserve for 20 years.

The second instrument that we have used extensively to protect our agriculture is quotas in support of supply management systems. We have fully preserved our rights in that regard. We have fully maintained our existing regimes and the capacity to introduce new regimes.

The existing import quotas will be maintained at the past five-year average. In other words, Americans will be able to supply up to 7.5% of our chicken market, 3.5% of our turkey market and very small proportions of our markets for shell eggs, liquid and frozen eggs, and powdered eggs. The dairy import restrictions also remain in place.

That protection is not, obviously, without cost. When you retain the supply management regimes, while reducing tariffs, you potentially put food processors at a cost disadvantage, to the extent that they would be obliged to draw upon significantly higher priced primary product than their American competitors. The extent of the problem depends upon the cost differential, the importance of the primary input in the final product cost, and the nature of the markets likely to emerge under the FTA. We are working very closely with the industry in addressing the problems of the sectors of particular difficulty.

Quantitatively, about 80% of the food processing problem stems from the two-price wheat system for grains. We have therefore agreed to remove the Canadian import license requirement for grains, for wheats and for oats and barley if, as and when the support levels are equivalent in both countries. In other words, we are not prepared to remove the import licenses under circumstances where the American product is significantly more heavily subsidized than our own. That is not, in our judgement, likely to be the case on oats and barley. It may remain for some time a difficulty with respect to wheat. But we anticipate that we will be able to phase out import licenses on wheat in the near future. In that event, the government is committed to introduce a program of assistance to ensure that the cost of this adjustment does not fall disproportionately on those wheat producers whose markets have been based on the two-price wheat regime.

Further, the Americans have an extensive set of import controls governing sugar and sugar-containing products. Under the budgetary restrictions that they face, they are moving to tighten that program substantially. The Americans have agreed that they will not tighten that program with respect to Canada for products containing less than 10% sugar. The reason for that is to ensure that we do not find ourselves in the situation where our food processors in the future find themselves restricted in their access to the U.S. market because they contain a relatively small proportion of sugar.

Furthermore, in agriculture, we are moving to free trade in beef and veal. We will be eliminating tariffs. We will be exempting one another from our respective meat import laws. We will be recognizing each other's meat inspection systems and eliminating the new USA program of special inspection at the border (at a cost of about $300 per truck!). This free trade agreement for red meats is potentially one of the very

major gains under the agreement as it offers substantial opportunities to our meat industries, notably in Western Canada.

Finally, the agreement would prohibit export subsidies to one another, and we will be collaborating closely with the Americans in the multilateral trade negotiations and in any other fora that prove useful to try to bring some further order into the international agricultural market.

A related sector is that of alcoholic beverages. We made a number of commitments in the Tokyo round of trade negotiations. Indeed, in the view of some of our trading partners, we have not lived up to those commitments. They have taken us to the GATT, and its decision have just this week been reported to have gone heavily against us. Meanwhile, the American industry had, on the basis of those same allegations, instigated a petition for a Section 301 action against Canada. That would have hit not only Canadian wines, but Canadian beers and our Canadian distilled spirits, which incidentally are much larger export markets.

In this agreement we have moved to a new regime for wines. We will give the American wines national treatment on listings. We will phase out discriminatory price mark-ups. We have agreed that we will give them national treatment for distribution of wines within Canada. We have, however, retained a number of special protective provisions.[3]

In addition, for distilled spirits, which represent a major Canadian export interest, we have moved to a new regime. There will be the immediate elimination of tariffs on whiskey. We have undertaken to recognize one another's Kentucky bourbon and Canadian whiskey, and we have agreed to eliminate discriminatory practices.

You will notice on reading the agreement that this section of the agreement makes no provision with respect to beer. Beer is not covered by this agreement—neither its obligations nor its protections. The GATT is, of course, another matter.

Energy

For trade in energy, we have undertaken a set of reciprocal commitments. Those commitments are the same as will apply generally to all commodities under the agreement, taking account of the further provisions that have already been agreed to by Canada under the International Energy Agency on petroleum.[4]

The commitments in this agreement will be the commitments which, as I indicated, are covered by the general provisions of the agreement. Now what will that do? First, it will guarantee us secure access to the United States market. The United States presently effectively embargoes their imports of uranium from us; that embargo will be lifted, freeing our access for trade worth some $300 million annually. They have, through an independent regulatory agency, the Federal Energy Regulatory Commission, taken some recent decisions which we do not regard as appropriate; it has been agreed that in future, any such decisions will be subject to consultation and negotiation.

There is before the Congress, legislation introducing surcharges to be applied to imports of oil. Those will not be applied to imports into the United State of Canadian oil. And furthermore, there has been a great deal of attention on Capitol Hill with respect to our exports to the United States of hydro electric power, particularly out of the midwest of Canada into the Midwest of the United States. Under this agreement, restrictions may not be applied to those hydro sales by the United States.

Furthermore, neither country will impose discriminatory price restrictions at the border. That of course does not bear upon the decisions that will be taken by private individuals, or indeed, by provincial utilities or provincial energy corporations. It does provide that the federal government will not regulate price discrimination at the border. However, in the event of short supply, when we judge that we face a short supply situation on energy commodity, then the rules governing export controls under this agreement will apply to energy commodities, as to other commodities. That will mean that we may, indeed, in circumstances of short supply of a given commodity, restrict our exports to the United States, but we would do so on a proportionate basis, which essentially would ensure that we would not short our export customers substantially more than we were shorting domestic customers in that situation. In circumstances of serious international shortage, that may indeed, incidentally, result in a significant price differential between Canadian and USA markets.

Automotive Products

The next critical sector is the automotive sector. There let me quickly sketch what is in the agreement. The first provision is that we are phasing out the automotive tariffs between Canada and the United States. Original equipment tariffs will go to zero over 10 years, tires over 10 years. Aftermarket parts will go over five years, because that is an area of significant advantage to us.

We have a number of duty remission programs in place in this industry. Those will be phased out. Some of those are export based. They are relatively minor. Those will be eliminated immediately. Some of the others, in the form of duty drawbacks, would be phased out over a period. For example, free trade zones are a device that the Americans have used around their automotive plants – those would be phased out with respect to any shipments to Canada.

Finally, there are some production-based duty waivers which have been introduced with respect to some of the newer manufacturers. Those would be phased out when the existing commitments expire, and no later than 1996.

Meanwhile, the Auto Pact safeguards remain fully intact. That is to say, in order to qualify for Auto Pact treatment, a company would have to meet the existing criteria. It would have to meet the assembly ratio which would require it to produce one car in Canada for every car it exported and it would have to meet the so-called "CVA" commitments in the side letters to the Auto Pact. We are in a situation now where all the qualified manufacturers very substantially exceed those safeguards. If they were ever to fall below those safeguards, which would be a catastrophic situation, then they would

face the penalty. The penalty which would be particularly onerous would be the loss of the right of a qualified manufacturer to import product duty free. This right is currently worth an estimated $300 million per annum with respect to imports from third countries, against whom the tariffs would remain in place unless or until eliminated through multilateral negotiations.

Non-Auto Pact producers, those who do not achieve Auto Pact status before the entry into force of the agreement, would be subject to a different set of rules. In order to qualify for that duty free shipment across the border, they would have to attain a level of 50% direct cost of processing in North America. This represents the equivalent of about 40% increase in the value added standard that they would have to reach in order to qualify for duty free export into the United States, or duty free import from the United States into Canada.

New Elements

The next section of this review deals with some of the non-traditional elements – services, temporary personnel access, financial services and investment. Let me go quickly through those as a basis for your later questions.

Services Code

We have reached agreement on a set of principles which would govern future regulation in the services industry. We would both be free in the future to regulate the service industries, but only in conformity with these basic principles. Essentially, this new code will enshrine the principle of non-discrimination, and set rules with respect to national treatment, right of establishment, right of commercial presence and the transparency of regulations. Under the agreement, any future regulations by either side, whether at federal or provincial/state levels, would be governed by these rules.

There will also be a disappointingly limited number of sectoral agreements which will actually roll back the restrictions that are now in place. In this round, we were able to agree on one set of professional services – architects. There will be mutually acceptable standards in both countries and mutual recognition of one another's standards. This agreement was worked out by the Institutes of Architecture of the two countries. We anticipate that in the future, there will be other professional institutes in both countries which will work out similar sorts of arrangements.

A second sectoral agreement will be tourism. This agreement will further elucidate the application of the general rules to the tourism sector.

Similarly, while the transportation industries will be fully covered by the Services Code, there will be an annexure which will be by way of clarifying those areas of transportation which are indeed going to be subject to "grandfathering" and under what circumstances. The Air Bilateral agreements for example will not be governed by this agreement. Since the conclusion of the agreement, the Americans have come under great

pressure from their marine lobby to go much farther in maintaining their freedom of action to continue to act in an extremely protectionist manner in this sector, going beyond the existing Jones Act – if that is possible. While we are sympathetic to their concerns, Canada is not prepared to re-open negotiations on this issue.

Finally, there will be a substantive sectoral agreement that deals with enhanced telecommunications and computer services. What that will provide, as laid out in the *Elements of Agreement*, is non-discriminatory access by these add-on users to the basic systems. It will maintain our existing rights of access. It will limit certain anti-competitive practices. This roll-back of existing measures will only apply to the enhanced telecom and computer services. It does not apply to the basic telecommunication systems, the CN-CP and the Bell networks. Those remain in place and those are not affected by any of the provisions of the sectoral agreement.

Temporary Personnel Access

Furthermore, there will be a chapter of the agreement with respect to temporary personnel access. This is an extremely sensitive issue. It is one which arose very forcefully in our consultations with Canadian business men and women across the country, who are encountering increasing difficulties in servicing the United States market – difficulties in having their business personnel move into that market, difficulty in having their professional staff move in to provide services.

That applies not only to the service industries, but also to the manufacturing industries, where it is very difficult to sell a major piece of equipment into the United States if you find you are not able to provide after-sales service because of restrictions at the border. Under the agreement we have reached with the United States, Canada would be placed in a special category and there would be provision which would enable business persons, recognized professions and sales and after-sales service personnel to move with a very substantial degree of freedom across the border. I should stress that it does not apply to the blue collar activities, where in both countries, frankly, organized labour would not have wanted to see us open up the border.

Financial Services

The remaining services sectoral agreement governs financial services. Canada will undertake as part of that agreement to treat Americans and Canadians alike in the purchase of shares in financial institutions, and will exempt American bank subsidiaries from the existing limit on foreign assets.

For their part, the United States will recognize the freedom of action of Canadian securities dealers and other financial institutions with respect to all Canada and other government securities in the United States market. That accounts for up to 90% of the business of securities firms, who were concerned that in the event they were to be acquired in Canada under provincial or federal regulations which have recently been

liberalized, the existing American laws would disadvantage them with respect to this very important part of their activities.

Secondly, the Americans have agreed that we will maintain our present rights and privileges in the United States market, which in some instances means that our financial institutions will continue to enjoy better treatment in the United States market than American institutions enjoy. A classic example would be interstate banking, where Canadian institutions have some freedom of action that their American counterparts do not enjoy within the United States.

Finally, in the event of amendments to the Glass-Steagall framework legislation in the United States, the undertaking is that our access would not be restricted as a result of any future amendments.

Investment

The next non-traditional chapter of the agreement is investment. We have essentially enshrined present investment policies in this agreement. That includes grandfathering all existing laws and policies and practices, for example, in communications and in transportation and in energy.

With respect to the Investment Canada review of foreign takeovers, the threshold with respect to direct acquisitions will be phased upwards to reach, by the end of the phasing-in period, $150 million. The review threshold for indirect acquisitions will be phased out entirely over a three-year period. Furthermore, under this agreement, neither through Investment Canada, nor through any other body, would Canada be permitted to impose performance requirements as a condition of investment in this country, and nor would the Americans be able to impose such requirements on us.

Other Measures

That takes me to certain special measures which do not fit elsewhere in the agreement. Those specifically related to cable retransmission, the "print in Canada" requirement and the postal rates differential.

Cable retransmission is a measure which has been for a long time under consideration, and its implementation has been held up pending the conclusion of this agreement. This essentially provides that if a cable company will be using a signal in a local market, it will pay for that signal. The Americans already have similar legislation and regulations in place. The Canadian measures will be introduced in the Omnibus Legislation sometime next year for close examination. It would involve amendments to the Copyright Act.

Second, under our tax law, in order to qualify for the special deduction of advertising expenses, among the requirements now stipulated is that the advertising material be printed in this country. That "print in Canada" provision will also be

terminated. The reason for that, I think is rather obvious. This was part of the deal in order to open up and preserve the U.S. market for our printing business, which is very substantial and growing very rapidly.

Finally, there is under our present system, a postal rate differential, as between certain categories of magazines. The provisions of this agreement will only apply to general magazines of significant circulation. To be more specific, it will apply to the differential that applies presently between *Macleans* on the one hand and *Time* and *Reader's Digest* on the other. That differential is presently 1 1/2 cents per copy. That differential will be phased out. It will be for the Government to determine in the course of its agonizing over the Post Office, whether that will be phased out by lowering the one or raising the other.

The cultural industries, properly defined, will be fully exempted from the provisions of this agreement.[5]

Institutional Elements

The final section of this package relates to institutional elements. These comprise a Canada-USA Trade Commission, some general dispute settlement provisions, some special provisions on import safeguards and some special provisions on countervail and anti-dumping.

Trade Commission

The Canada-USA Trade Commission is essentially charged with the political management of the agreement. It will be at the Ministerial level. It is to avoid disputes and it is to oversee the development and evolution of the agreement.

Dispute Settlement

The general dispute settlement provision procedure would be essentially a GATT-type panel procedure, but modified and enhanced. In the event that either country feels that the other country has taken some action that is inimical to its interests under this agreement, it will be open to the first party to require the other country to notify them of such action, to consult about it, and to raise hob about it. If they are unable politically to resolve the dispute, there would be a panel review of the matter and the panel would make its recommendations. If both parties agree to be bound by the decision of the panel, then that would indeed be a binding form of dispute settlement.

However, I must say in all honesty that where, for example, we have such a provision under the International Joint Commission, it is never used for the obvious reason that if you think you have a weak case you do *not* agree to be bound by a panel decision.

Import Safeguards

This dispute settlement procedure is binding automatically on all questions of import safeguards. This arises when one country believes that a surge of imports from the other country is doing its producers damage. They are not pretending that the imports are subsidized or dumped, just that they are being damaged by the surge of imports. Here, by agreement, all the panel decisions will be binding.

Where one country believes that the problem is directly caused by a flood of imports of some products coming in from the other country and doing serious injury, then the receiving country will be permitted to "snap back" to the most-favoured nation tariff in force at that time. In other words, where the reduction of tariffs caused a surge of imports, the importing country will be allowed to reinstate the tariff. If they do that, they will be obliged to compensate the other party.

That means that if, say, the United States took action that we thought was inappropriate, we could insist upon a panel. The panel could rule on whether, indeed, the Americans were justified in taking the action; whether the action they took was consistent with the agreement, and whether the compensation that they offered us was adequate. That finding would be binding.

These provisions will only apply during the first 10 years of the agreement. After that transition period, such bilateral safeguards will no longer be permitted.

Another set of rules governs the case in which an import surge from the partner country undermines the effect of a global quota regime applied against all other countries under GATT Article XIX. In a case where, say, we had imposed a global import restraint against everybody else but the United States, and we found that after we imposed that restraint a surge of imports from the United States was undermining the effect of that overall restriction, it would be open to us to decide to impose a restriction against these imports. That restriction, however, would have to preserve the trend of their exports to us; it would have to provide for growth of those exports; and it would have to provide for compensation.

Again, if the Americans did not like the way we were treating them, they could take it before the panel. The panel would determine whether the required conditions were met before the control was put in place, whether the action taken was consistent and whether the compensation offered was consistent with the agreement. The decision of the panel on these matters would be binding on both parties.

Countervail and Anti-Dumping

The other two trade remedy measures are countervail and anti-dumping. These are very difficult areas for both countries. We both have laws concerning the rules defining when a product has been dumped and under what circumstances anti-dumping duties may be applied. Indeed, our laws are almost identical and are in conformity with the GATT.

We also have rules which seek to define when there is a subsidy and under what circumstances the product may be subject to countervailing duty action. Again, we have laws which are closely similar and in conformity with the rather woolly, rules of the GATT.

Our objective here was, from the outset, to see if we could work out a set of self-contained rules, unique to the agreement which would define much more precisely and acceptably what constituted dumping and what constituted subsidies, and what disciplines would apply to both those forms of unfair trade.

We were *not* successful in working out a new set of rules. The reason for that was very simple. With respect to countervail, the position that the Americans took, up until the very close of these negotiations, was one which would have sought to apply to Canada stricter rules than they were prepared to accept for themselves. That simply was not on.

On the other hand, there may have been some Canadians who believed that we could negotiate a set of rules which would have given us freedom to subsidize our shipments into the U.S. market or to dump into the United States market. And that clearly was not on.

Failing to reach a distinct and unique set of rules, what we agreed to do was to take it in three steps. First, we will continue that negotiation. We will be working over the next five years to define unique rules on what constitutes fair trade, and therefore unfair trade; and to define the disciplines on when you can apply countervail and anti-dumping duties. If we are unable to reach that agreement, then the whole FTA will be in jeopardy. We have made provision so that we can give ourselves a two-year extension, if we are close, at the end of five years to that objective. This is an opportunity for us to see whether over the next five years, as we become more comfortable with the trading arrangements that will flow from this FTA, we can work towards a new and unique set of rules.

The second provision concerns what would happen with respect to any changes in legislation. For that legislative change to apply to Canada it would be necessary for Canada to be specified in the legislation. There would be provision for notification and consultation. If we chose, there would be a binding dispute settlement review by a panel, a panel which would have full declaratory power.

That panel would review the changes in law to see whether these changes were fully consistent with our GATT rights, were fully consistent furthermore with the provisions of the agreement and were fully consistent with prior decisions of the panel. For example, we have had a recent instance where following a protracted legal battle we won a countervail case on pork. The response of the U.S. Congress was then to enact legislation which had the effect of taking that victory away from us. That would clearly not be possible under these provisions. Failure to comply with the decisions of that panel would be to breach the agreement.

Finally, in this transitional period, anti-dumping and countervail cases themselves would be subject to review by the bi-national panel. The panel would undertake a full review to determine whether the decision was in accordance with

Canadian or American law as the case may be; was fully supported by the facts of the case; and was not handled in an arbitrary or capricious manner. The panel would then determine whether the decision should be upheld or should be remanded either to quash the original decision or to have the decision redone on a different basis which would be specified by the panel. This all would occur within time limits which would be clearly specified within the agreement. The decisions of that panel are clearly binding on both parties.

Standstill

Obviously, until you have an agreement you do not have an agreement. Once you have an agreement you do not need any interim provisions. Standard international practice requires that if you sign an agreement, then prior to ratification you do not act in a way inconsistent with it. Beyond that, both parties to this agreement have explicitly recognized that over the next while their actions must be taken with a clear view that nothing should be done which would undermine the spirit and benefits of the agreement. Failure to respect this provision, on either side, would jeopardize the ratification of the whole agreement. This is the so-called "standstill" provision.

Assessment

This, then, is the agreement reached in Washington last month. Before the end of this year, the Prime Minister – after consultation with his Cabinet, the Parliament, the Provincial Premiers, the network of advisory groups and the general public – must decide whether to sign the final text with the President of the United States. If the agreement is signed, the next step will be the introduction and scrutiny of the implementing legislation in both countries – in the Congress, subject to an "up or down" vote at the end of a fixed time period, and in Canada, subject to normal procedures. If these steps are all successfully completed, trade between the two closest trading partners in the world will be governed by a new, unique and special relationship.

If I may be permitted, I would make four general observations. First, I am confident that the overwhelming consensus of economic and business analysis will conclude that this agreement is significantly more advantageous for Canada in hard economic terms than the *status quo*, let alone the real alternatives open to us. I realize this is a bold statement from one who will be followed on this platform by such distinguished economists as those on our program today. All the solid analysis we have done and seen clearly indicates, however, that the significant broadening of our market must bring with it the established benefits from such trade liberalization: lower prices for Canadian consumers and industrial users; increased scale and specialization of production leading to a significant narrowing of the productivity gap; higher real disposable incomes for Canadians in all regions; and, finally, resulting from this a measurable increase in the number and quality of jobs available in Canada.

Second, these overall conclusions must be tempered by recognition that the benefits and costs of this agreement may not, and in the nature of things will not, fall equally across the various groups of our society. Any government determined to proceed with such an agreement must make the unmistakable commitment to ensure that those who will bear more than their share of the costs are assisted in this adjustment. If, indeed, the overall benefits are substantial, the capacity of government to assist will also be enhanced and must be used.

Third, the real alternative is *not* the continuation of the *status quo*. I have summarized the benefits forecast from this agreement. The precise opposite can be expected if, instead, we continue to slide into a deeper morass of protectionism, increasingly restricted in access to our principal export market. Despite intensive efforts by business and government over the past four decades to diversify our trade overseas, the outcome has been our increasing reliance on that market in which we have proven most successful, the United States. However, the fundamental causes giving rise to the staggering American trade deficit will not disappear and, in my view, that deficit will continue to drive American commercial policy for the foreseeable future, through to the end of this century. Failure to reach agreement providing us with improved, preferential access to that huge market will not only mean opportunities foregone; it will inevitably bring us up against heightened restrictions against expanding exports to the USA and cost us heavily in terms of lost jobs and lower incomes.

Finally, while this is a mammoth undertaking, it is after all, only a trade arrangement. It does not, in itself, constitute any necessary threat to the sovereign independence of either country, as experience with such arrangements around the world has clearly and unequivocally demonstrated. It does not mean political annexation. It does not limit our freedom of action on social policies, cultural policies, defence policies, or even trade policies vis a vis the rest of the world. We will be as free once the agreement is in place as we are today to follow our own destiny, from our broadest national purposes to the specifics of farm supply management or regional industrial development. Surely, the only constraint on our "sovereignty" is this: if the advantages of this agreement prove to be very substantial, so too would be the cost of abrogating the agreement for any future government seeking to move in directions inconsistent with the agreement.

Notes

1. *The Elements of Agreement: A Preliminary Transcript.*

2. A Free trade arrangement does not impose a common external tariff. Our respective policies toward third country imports remain untouched and very different.

3. These will preserve the listing advantage that we give B.C. estate wineries; maintain price mark-up differentials where those are based on differences in cost of service; keep in place the private wine stores that are now quite common in Ontario, and to a lesser extent in British Columbia; and preserve the special provisions for wines bottled in Quebec.

4. We will remain bound in the future by those IEA commitments, which would require us, in the event of international short supply, to not only maintain but under some circumstances actually to increase our exports to the United States.

5. Cultural industries are defined as follows: The publication, distribution or sale of books, magazines, periodicals or newspapers, in print or machine readable form, but not including the sole activity of printing or typesetting; the production, distribution, sale or exhibition of film or video recordings; the production, distribution, sale or exhibition of audio or video music recording; the publishing, distribution or sale of music or print or machine readable form, and; finally, radio communication in which the transmissions are intended for direct reception by the general public, including all radio, television and cable television broadcasting undertakings and all satellite programming and broadcast network services.

Free Trade – What Now For the United States?

Tim Skud

The theme for today's conference is "Free Trade, What Now?" What does what now? mean for the United States? For those who have been working on the negotiations, the answer to what now? is more of the same. Although victory was declared on October 3, the work is not done. The immediate task is to wrap up the legal details of the agreement. Lawyers from the two negotiating teams are meeting to hammer out the draft text of the agreement.

There are reasons to complete this work quickly. The U.S. Administration has been pursuing this agreement under the authority of our fast track negotiating authority, which means that Congress has committed itself to vote on the agreement in a fixed period of time, without making any amendments to the agreement. The fast track authority, however, expires on January 3, 1988, so the agreement must be signed by January 2.

A precondition for the fast track treatment, however, is that the Administration consult with Congress on the agreement over a 90 day period immediately prior to signature. Members of Congress understandably want to see the text of the agreement during the consultation period, and with enough time to give it the consideration before the January 2nd signing.

Even without the completed text the consultations are underway in earnest. The consultation process is an important "what now" for the negotiating team: presenting the agreement to the Congress, and also explaining to the private sector what the agreement means for the United States.

Although econometric studies show Canada to be the chief beneficiary of a Free Trade Agreement, there are concrete gains for the United States as well. The FTA will advance the economic welfare of both countries. The FTA will enable both countries to better meet the challenges of international competition, and provide a model of trade liberalization for the rest of the world.

Congressional Review

The next step of "What Now?" in the United States is Congressional review of the agreement. In principle, much of Congress shares the Administration view of the benefits of free trade. Throughout the period of the negotiations, however, Congress has been encouraging the Administration to aggressively pursue our trade policy interests. From the beginning, Congress has made it clear that it would only accept an agreement that clearly met U.S. commercial interests.

In Canada the focus on free trade has been even more intense, as has been the pressure on the negotiators. These pressures, and the scrutiny to which all knew the agreement would be subjected, ensured that only a balanced agreement with good prospects for political approval could emerge.

In addition to the political pressures, the negotiators began with the promise that anything other than a balanced agreement would do more harm than good. An unbalanced agreement would immediately result in domestic pressures to right the imbalances, lead to more instead of fewer trade disputes, and leave us with a more contentious rather than a more harmonious trade relationship. An agreement that works, and is sellable to both nations, has to be balanced, and in our mutual economic interest.

Consultations with Congress have not been discouraging, although those members with constituents that would lose tariff and other protection have expressed concern. The real scrutiny will begin when the draft legal texts are released. Congressional approval will depend not only on the overall macroeconomic benefits of the agreement, but also on how the agreement addresses sectoral trade concerns, and how the FTA positions the United States for the Uruguay Round of multilateral trade negotiations.

An examination of how some of the various sectors are viewed in the United States and in Congress in particular can clarify overall U.S. attitudes toward free trade.

Tariffs

The real centerpiece of a free trade agreement is the elimination of tariffs, an achievement often underestimated because it was assumed to be part of an FTA from the beginning. The elimination of tariffs is an important reduction in protection that will increase economic efficiency and lower costs for consumers. Tariff reduction was of particular interest to the United States in this negotiation because Canadian tariffs are,

on average, twice as high as American. The United States, however, has a number of specific tariffs that remain high and are of interest to specific Canadian industry.

Investment

An open investment climate is an essential element of a free trade area. Without it, distorted investment decisions could nullify the trade benefits of the agreement. The investment chapter of the FTA is a step toward the kind of secure investment environment where decisions are based on economic efficiency , rather than artificial conditions.

The United States is pursuing investment liberalization in the Uruguay Round. One U.S. focus is on trade-related investment measures or TRIMS. TRIMS are conditions imposed on an investor by a country in exchange for permission to begin, expand, change or continue business operations. TRIMS take many forms, including local content and export performance requirements. TRIMS distort trade and investment flows by shifting patterns of investment, production, employment and trade. TRIMS are often coupled with investment incentives, such as tax holidays, which are a costly and often ineffectual way to attract investment. A much more efficient way to attract investment is to provide guaranteed access to an expanded market by negotiating a FTA.

Agriculture

The chapter on agriculture eliminates several specific trade barriers. It

a) prohibits direct export subsidies between the two countries;

b) exempts each country from the other's meat import restrictions;

c) eliminates technical barriers to agricultural, food and beverage trade; and

d) limits the use of import licenses, quotas, and other trade-distorting practices.

These and other measures in the chapter will facilitate agricultural trade, but they fall far short of fixing the real problems that plague world agriculture. Massive subsidy programs distort prices, lead to huge surpluses, and gross inefficiencies. The United States and Canada agree that these programs must be eliminated for free trade to flourish, but this could not be done within a bilateral agreement. It must be done on a global basis. Both the United States and Canada will work in the Uruguay Round to achieve this goal.

Government Procurement

The government procurement chapter of the agreement reduces to $25,000 the level at which specified government organizations must open contracts on a non-discriminatory basis to bids from suppliers of both Canadian and United States products. This is a bilateral extension of commitments under the GATT government procurement code, where the coverage level extends down to only $171,000. The agreement also provides for increased transparency in tender procedures and a bid appeal process.

Both negotiating teams explored the possibility of a broader agreement that would include additional government organizations, including those at the state and provincial level. A broader agreement was not possible. United States negotiators are working for liberalization in the ongoing renegotiation of the GATT government procurement code.

Intellectual Property

There is no intellectual property chapter in the agreement. The negotiating goal was an intellectual property agreement that would permit both parties to require full adherence to international standards of intellectual property protection.

A broader agreement could have set a useful precedent for efforts to negotiate an intellectual property agreement in the Uruguay Round, but U.S. negotiators believed any agreement with commitment to less than full levels of international protection would undermine that precedent. Progress on intellectual property in the Uruguay Round remains a major U.S. objective: the FTA commits the two parties to work together in the multilateral trade negotiations and other international Fora to improve protection for intellectual property.

Subsidies and Dumping

The treatment of unfair trade remedies was one of the most sensitive and contentious issues in the negotiations. The United States Congress is very leery of anything that would dilute our ability to combat unfair competition from abroad.

Both parties agreed to retain existing national laws and procedures dealing with subsidies and dumping. The parties also agreed, however,that national antidumping and countervailing duty decisions may be appealed to bi-national dispute settlement panels. This arrangement will be in effect for five years, pending the development of substitute systems of laws for anti dumping and countervailing duties.It was agreed to establish a working group to explore the possibility of replacing trade law with competition law—laws that restrict predatory pricing or other unfair competition. The group will also explore the possibility of developing a new regime for subsidies.

Services

The services chapter of the agreement is the first international code of binding rules and principles covering a wide variety of service sectors. The code obliges the United States and Canada to treat each other's services providers no less favorably than they treat their own. This treatment extends to all new measures governing domestic and cross-border sales, distribution and the right to establish facilities for providing covered services. The agreement also provides for the development of mutually acceptable professional licensing standards.

Although the services code applies only to future measures, it ensures a liberal bilateral services regime, because both countries' services markets are already relatively open. The agreement also provides for rollback of restrictions in specific sectors when mutually agreed. Specific sector annexes on enhanced telecommunication and computer services are included in the current text, as well as an annex on how the agreement applies to the transportation sector. The United States is a major exporter of services and the services chapter of the FTA guarantees continued access to an important market, and is a good precedent for multilateral liberalization.

The final "what now?" for free trade in the United States is to build on the progress made in the FTA and pursue global trade liberalization. The FTA sets a marker for the Uruguay Round of trade negotiations. It demonstrates to the world the benefits of dismantling trade barriers, and demonstrates the possibilities from good faith bargaining. In particular, it demonstrates the benefits to be achieved when governments are willing to make the difficult choices and take the political heat that trade liberalization requires.

III

For the Loyal Opposition

Free Trade – The Costs for Canada

The Honourable Lloyd Axworthy

The Mulroney Trade Agreement, negotiated in a flurry of last minute bargains, deals, and under the table handshakes, represents a fundamental change in this country's political economy.

All involved, both pro and con, agree that the debate over trade will prove to be critical to the future of Canada. Years from now, the citizens of this country will look back to this historic debate, and hold our generation accountable for whatever decisions we make here today. Our children's generation may well ask us why such an important matter was given such cursory consideration before an agreement was signed.

The best way to describe the present process for deciding on the Canada - U.S. Trade deal is a shot gun wedding. Consummation has taken place before we get to the altar – and everything is done in a hurry. It is a denial of fundamental political rights for Canadians.

Last week, the Parliamentary Committee for External Affairs began holding meetings with officials and selected witnesses to consider the trade agreement without a final written text. The Deputy Negotiator, Gordon Ritchie, told us that another 20-25 sections are to be added as well as 1200 pages of annexes. We were also told that consideration of that bilateral dispute settlement mechanism without the legal details or the services sector without the definition of service is virtually impossible without the final draft.

The process of garnering public participation is a comic farce. Next we will be spending one day in each province and thereby hearing from no more than 10 individuals

or organizations about their views on Free Trade in each – so the province of Quebec with six million people will have six hours to present its case, and of course, they like us, without having the final text.

We understand that we may have the text of the agreement by the end of November. The committee is supposed to report by the 15th of December and we are scheduled to be on the road for the first week in December. In other words, we, as a committee will have one week, while we are travelling to consider this final text and draft our response.

It took Britain seven years and an election to decide on its inclusion in the European Common Market. In Canada we will be doing it in just under a week!

Let me turn now from the process to the substance. While we do not have the final text, we do have a framework for the agreement which provides us with some idea of what the implications of such an agreement might be.

Many of you I am sure are aware of the arguments regarding sovereignty, culture and the threat to Canada's unique way of life. I have spoken often on these subjects before. Perhaps the guts of this debate lies in one's definition of Canada, both its past and future. But before I consider those larger questions I would first like to take on the economic gurus who are busy peddling this deal across the country. I want to take them on their own territory and seriously question the economic rationale behind this deal.

Benefits

Lets begin with a cost-benefit analysis. In its ideal form, according to the economists, a bilateral free trade deal would secure and expand market access. Thus, the benefits of free trade should include a lowering of tariff and non-tariff barriers. According to the MacDonald Commission the two greatest U.S. non-tariff barriers against Canadians are the trade remedy laws, including countervail, anti-dumping and presidential directives and government procurement.

Lets consider each of this deal's supposed benefits in turn.

Tariffs have indeed been lowered, but the significance pales beside what has been done and could have been done in the future through the multilateral system. When the General Agreement on Tariffs and Trade (known as the GATT) was first established in 1947, tariffs in Canada were an average of 50%. That figure has been reduced in the last forty years in successive international rounds of negotiation to between 5 and 10%. Canadian governments have liberalized trade but on a global basis respecting the first article of the GATT which demands the same treatment for every country and which makes possible trade-offs between several smaller like-minded countries and a larger trading nation.

And even for this government which is obsessed with negotiating tariffs on a bilateral basis, the U.S. House of Representatives passed their trade bill last April which includes a provision for a five year authority for the president to lower tariffs with

Canada on a reciprocal basis. In other words, a comprehensive deal was not even needed to negotiate tariffs on a bilateral basis. The political will was there, even in that most protectionist sanctum of the U.S. House of Representatives. Why then did this Government incur the additional and profound costs embodied in the October 3 deal?

Perhaps it was the non-tariff barriers. Lets consider the trade remedy laws. We were promised great things on this front. Remember the soft-wood lumber agreement. Over and over again the Government ministers used that case as their proof for why the American counter-vail and contingency protection laws had to be changed.

Last March Pat Carney stated that any agreement would in effect eliminate countervail. In November 1986, Thomas D'Aquino of the Business Council stated "developing a mutually acceptable set of rules governing import relief laws is critical to the success of the agreement", Donald MacDonald said in the same month, "unless we can deal with contingent protective measures (U.S. Trade Laws), I don't think a deal is worth making."

In fact, the bi-national panel only replaces as an appeal body, the U.S. International Court, which as admitted by Gordon Ritchie, was impartial in its past rulings; thus the panels bring no greater impartiality into the rulings as is so often claimed.

Further, it cannot question the laws themselves but simply their application, thus using American definitions and American laws rather than international rules to judge Canadian actions. Thirdly, only the Federal Government is a party to these panels, thus raising the crucial judicial question of the right of any firm to represent itself in the appeal process. It does not take much stretch of the imagination to envision a Government who, for Geo-political reasons, decides not to take the U.S. case to the appeal level. And it may raise serious constitutional concerns if there is a denial of the right of access to judicial review.

Finally, and perhaps most significantly, initiation of this bilateral process revokes Canada's right to appeal to the international trade tribunal. Given that the GATT allows us to challenge the law itself and not just its application, we have forfeited another very vital way to deal with American Protectionism.

Industries involved in the countervailing process should know that they will face the same process, the same costs and the same decisions. Or so legal opinions from such respected firms as Gray, Clark and Sikh and Osler, Hoskin and Harcourt conclude. The consensus is in amongst trade consultants and lawyers alike: Little has been gained with these new binational panels.

Of greatest concern is the looming American Omnibus Trade Bill. Included in both the Senate and House versions of this bill are some very damaging provisions. The U.S.-Israel F.T.A. provided for Israel a clear exemption from any further changes in trade legislation inconsistent with the provisions of the treaty. This is reflected in both versions of the Trade Bill which confirm non-applicability of conflicting provisions with bilateral FTA's in force *before January 1, 1987*, that is the one with Israel.

The Canada-U.S. Agreement provides for no such exemption. Instead *the elements of the agreement* states, "the Free Trade Agreement shall provide that each party reserves fully its right to change its domestic anti-dumping and countervailing duty laws." The new protectionist laws will, if implemented fully, redefine domestic industry, extend application of trade laws to Government imports, greatly increase the number of actionable subsidies, expand the scope of current dumping law, eliminate injury test on intellectual property cases, and make mandatory section 301 investigations.

The bilateral panels will simply sanction these changes and adjudicate as to whether they have been applied properly. We cannot under this FTA, challenge the law itself. It is clear we have no greater access, we have no greater protection and industry is not better off with this agreement.

Besides American trade remedy laws, the MacDonald Commission stated that U.S. Procurement regulations were the second major non-tariff barrier to trade with Canada.

Once again the agreement on procurement falls far short of expectations. It is very limited. Indeed, Mr. Reisman himself said that he was most disappointed in the procurement section. We will now be able to bid on U.S. Government contracts, (specifically defined) and valued at $3 billion U.S. to $5 billion Canadian; a ratio of about 6 to 1.

What must be noted is in the last multilateral round of negotiations, Canada put on the table $1 billion in procurement while the U.S. put $18 billion up for bids. Not only is it a larger amount but the ratio of U.S. to Canada procurement is 18 to 1. That is because other countries were involved in the negotiations. Canada as a result became an indirect beneficiary. Thus it is clear that under a multilateral negotiation, Canada can do much better.

On the economic side, there is no guarantee with these increased procurement dollars we will bring greater economic activity to Canada as a result. A briefing note written for U.S. Trade Representative Clayton Yeutter stated "these changes will mean that for covered procurements, investment in Canada can not be required – or even looked on more favorably – as a condition for selling to the Canadian government." In other words, future Canadian governments have no guarantees that government contracts will in any way be serviced in Canada, or involve Canadian workers or create investment opportunities on this side of the border.

Thus these are the supposed benefits of free trade. This deal simply falls far short. Some may argue that the ideal of free trade can never be reached; that you have to work with what you get and to compare the ideal formula with the reality is unfair. But what I outline to you above is not simply the Platonic form of a free trade deal. On the contrary, measures which would circumvent the trade remedy laws and the Omnibus Trade Bill up until two months ago were considered *essential* by the free trade advocates to any concrete agreement being worth the paper it was written on. Why then does the business community continue to support this deal?

Put simply, they have an ideological commitment to any deal at all. This attitude was nicely summed up by the writer Margaret Atwood when she appeared before our committee last week.

> This is an old "snake-oil salesman technique – get some now because there's only one left. Is this last day sale mentality the right approach to deciding the future of a people? Is it even democratic?

I agree with Ms. Atwood. Free Trade has become an ideological commitment for many pro free traders who have taken the "leap of faith" and now feel obliged to applaud the supposed benefits of Free Trade when in reality they are very limited.

The Costs

We have considered the benefits of Free Trade. Let us now consider the costs.

Many witnesses have pointed out that this deal goes far beyond any previous free trade agreement and is more in the sphere of economic union. Virtual elimination of screening on investment in perpetuity, national treatment on services and a continental energy pact are not traditional elements of any free trade agreement and they cost Canada in terms of our capacity to make decisions in the future.

Indeed it is significant that the one other country who is currently negotiating a free trade agreement with the U.S. have said they would never accept the conditions Canada has accepted. Specifically, Mexico has said its energy resources are its own and will not necessarily be shared in times of crisis with the Americans.

In specific sectors, Canada has paid an enormous cost. The horticultural industries, with a clearly shorter growing season, must now face the phasing out of tariffs over a period of years. Communities in the Niagara Peninsula and Okanogan will face severe hardship. Already, grape growers are discovering that banks will loan no money without collateral from another source.

Many firms in the Montreal area who manufacture textiles will also face liquidation shortly. The cost here is in real human lives and must be accounted for by this government, who still refuse to admit that adjustment programs for such workers should have been an essential part of any free trade agreement. Mike Wilson tells us the market place will handle the adjustment.

The auto industry in Canada has lost its safeguards and incentives for off shore investment. Several autoparts firms have threatened to move to the U.S. because of the free trade deal. Thousands of jobs are at risk in the autoparts industries.

We have already paid a 15% tax on softwood lumber which has been explicitly retained in this agreement, we have a pharmaceutical bill which will increase the cost of drugs to the average Canadian in order to protect and enhance the profit margins of American multinational drug companies and we have given up our right to screen foreign investment.

Throw into that mix the concessions already made in terms of the NEP, FIRA and countless political confrontations with the Americans from drilling rights in the Beaufort Sea to American submarines in Canadian waters.

These are the immediate costs of Free Trade and they greatly outweigh the benefits. What is of far greater significance is the power we have lost as a nation to shape our political-economy and thereby our national destiny. Despite the fact this deal is a bad one on the basis of its own economic merits, it also represents a new and unsettling direction for Canada.

As the Hon. Mitchell Sharp said before the Parliamentary committee,

> From the very beginnings of our country, we have sought to preserve a separate identity, to live in harmony with our next-door neighbour but as an independent country. By entering into this bilateral, preferential agreement, we would be deciding no longer to resist the continental pull. On the contrary, we would be accelerating the process of the Americanization of Canada.

"The Americanization of Canada", what does that phrase mean, for I believe it gets to the heart of the Free Trade issue. It can be defined as the elevation of the invisible hand of the market to the level of a deity. It means the gradual erosion of Canada's political economy, that unique historical mixture of government and private industry forging a nation and solving its problems together for an economy driven exclusively by the forces of a continental market.

It means increased harmonization of economic and social policies and limitation of the basic tools of political decision-making used for generations to build this nation.

Donald Smiley, noted Canadian constitutional scholar puts it well. He says,

> The free trade proposal challenges the fundamentals of Canada's nationhood... Canada is preeminently a political notion and what its citizens share is a common set of governmental institutions. National and sub-national governments have used their powers in pursuit of a wide variety of purposes. Such powers are limited by the circumstances of interdependence and in particular by the domination of foreign multinationals. Despite these constraints, Canadian governments have in respect to many matters established policies differing from those of the United States.

It is this range of freedom of action which supporters of free trade would have Canadians surrender. As a result, we are foreclosing our own future.

Mr. Mulroney and his allies have said the reason for a comprehensive free trade deal is jobs. The government has yet to provide any clear evidence to support their claims. Constant reference to the Economic Council Report no longer has relevance, as their computer simulation does not include some key variables – the continuation of trade remedy laws and the inclusion of services. And, as we have been warned there could be serious job losses in this area.

Equally misleading are the assertions that free trade automatically leads to higher growth and productivity. One can ask why it is that the United States in the 1970's had a .8% increase in productivity even though they had access to a huge market. Or, why many European countries experienced high unemployment or low growth, even as members of the Common Market. In other words there is no automatic guarantee of economic success.

Another proposition that the proposed deal would seriously undermine is our ability to achieve full employment. It is useful to look at the work of Gortan Therborn, a Dutch professor who analyzed the fifteen top industrial countries, including Canada, to see why some were successful in creating full employment and others were not. His conclusions were that the factors that made a difference were not ideology, growth rates, deficit reduction or export performance. The first essential ingredient was a commitment to full employment that was integral to the various economic structures of the country, and therefore influenced economic decision making.

To make this commitment work, there must be sufficient independence to allow governments to make the necessary choices, design the appropriate blueprints, have the required flexibility to adopt and alter policies according to the given circumstances. There must be the freedom to choose the right mix of fiscal, monetary, labour market, tariff, investment, development policies to maximize the possibilities of full employment.

If one were to follow this analysis, the Canadian government rather than aiming for greater integration of our economy should be striving for greater independence. So, when and if there is a readiness in Canada to truly implement a full employment policy, then we will be able to do so. And I can testify that it is possible, as a former minister of employment I had prepared such a plan for the previous government.

But under the Mulroney deal future government will have fewer public policy instruments, fewer choices, and will be far more dependent on a continental economy.

This agreement has limited our ability to use both regional specific public policies and the comparative advantage in our energy sector; it has given up essential infrastructural support programs such as those currently in use in the transportation and telecommunication sectors; and it has limited our capacity to foster emerging, infant industries in high technology.

We may also be running the risk of cutting off alternative trade options and opportunities. The last three years have seen a precipitous drop in our exports to the Pacific Rim, Latin America and Europe.

A U.S. trade deal that discriminates against third countries could yield even further trade diversion away from Canada. As our economy becomes even more foreign dominated the opportunities for export mandates will be limited – our ability to develop public investment policies circumscribed.

So I would say to you our freedom of action is not some bleeding heart concern. It is a deep-set concern about the loss of our right to nation build and pursue liberal minded policies in the future.

If our objective is full employment and an end to regional disparity then we must maintain, indeed restore, vitality to the public economy of Canada. It is not the market that should determine Canada's future, but a market place working in partnership with effective public policies to achieve a future of economic vitality and national equity.

It is this very commitment to the future that we are now bargaining away.

IV

Why Canadian Artists Oppose

People of the Word

William Johnson

At a dinner Lester Pearson was talking about the *London Times* and how sedate it is. At one point the *Times* reported the gruesome murder of a woman in a park, and the story ended by saying that "she had been decapitated and dismembered, but not interfered with." Pearson told Dean Rusk (American Secretary of State), "Its that way with Canadians. You can decapitate and dismember us, but don't interfere with us."

Today we have heard from two kinds of people, I would say; one was the economists. We heard from a politician, and in reference to political scientists and political economy, perhaps we straddled (a fence). But there is a third element in this debate which I would like to specialize in, simply because by looking at the roster I thought it would not be represented, and that is "people of the word."

If the United States did not exist we would have to invent it, and we *have* invented it, many, many times. The United States for Canadians is both a part of the real world and a piece of fiction. It is a source of investment and technology and an object of our demonology, a threat to our national identity, and perhaps the most visible foundation stone of that identity. Listen to the poet, Dennis Lee:

> The dream of Tory origins
> Is full of lies and blanks;
> Though what remains when it is gone,
> To prove that we're not Yanks?

The current debate over free trade between Canada and the United States bears a striking resemblance for me to the debate in Quebec leading to the 1980 referendum. In both cases those who favored a form of integration spoke chiefly, though not only, of

dollars and cents, while those who opposed integration spoke chiefly, though not only, of identity, values, sovereignty, essence and the like. The first group used numbers and spoke of what is divisible. The second group used symbols and spoke of what is indivisible. In both cases writers and artists lined up overwhelmingly against integration, while economists and business interests were mostly committed to integration.

A quotation: "It pains us to see our country put on the block," Rick Salutin, a playwright, wrote last week. Margaret Atwood, when she testified before the Commons Committee the week before, put the free trade issue this way: "It is not about liking the great THEM; it is about wanting to be who you are."

Who to be, who not to be? That is the question. And a difficult question it is in Canada, where the answer is quite elusive. At least the United States has provided us with a clear definition of who not to be. And our writers have made it a central theme of English Canadian literature to fight off the American eagle, just as French Canadian writers have made the attack on English Canada the central theme of French Canadian literature. If that is truer of the second, that is to say that the analysis of the peculiar dilemma of French Canadians, within and oppressed by Anglo-Canada, is a much more central theme than the equivalent about English Canada, but I think in both cases the parallel is quite striking. Farley Mowat put it this way in a 1986 "Letter to my Son:" "There can be no other real choice open to a Canadian except to resist the Yanks and all their works so that we as a people and a nation may escape being ingested into the eagle's gut, never to emerge again except maybe as a patch of excrement upon the pages of world history".

Canadian writers have stressed how un-American we are. Both Pierre Berton and June Callwood in their respective books on Canadian identity, which appeared in 1980 or so, said the same thing. "We are different people". The difference has been stressed by our writers to the disadvantage of the United States, which is portrayed as vulgar, warlike, merciless. And Canadians, of course, have to be whores or worse to sell themselves to such a vile country.

Read the writers published in the 1968 book, *The New Romans*, published, significantly, by Mel Hurtig, who is again on the hustings. It said everything that will be said, and that will be repeated on November 25, at an anti-free trade rally in Toronto's Massey Hall. The rally, organized by Margaret Atwood and Erika Ritter, will bring together the beautiful people of the word to irate, incite, sing, incant and deprecate against free trade. Margaret Atwood, in her 1986 book, took the cowboy as an American symbol, and the poem "Backdrop" addresses a cowboy:

> Starspangled cowboy
> sauntering out of the almost-
> silly West, on your face
> a porcelain grin,
> tugging a papier-mache cactus
> on wheels behind you with a string.
> you are as innocent as a bathtub
> full of bullets.

The poem ends with this reference to Canada: "I am the space you desecrate as you pass through."

Eric Nicol, in his poem, "Dat Ol' Man River," quoted a Canadian economist as saying the flow of U. S. capital is vital to Canada. Then followed Nicol's reaction:

> Roll on, O mighty river
> of U.S. dollars, majestic currency
> coursing northward into Canada,
> holy Ganges of gold
> which, even as we defile thee,
> (emptying our bladder of self-assertive
>
> sound and fury,
> voiding Canadi-anal matter),
> yet do we drink of thee
> like thirsty geese a-gargling,
> and carry thee to the banks
> our modest urnings,
> and reverently strew upon thee
> ashes of identity.

And the poet Ray Smith had this line: "You mean you like getting bum-f----- by bald eagles?" Earle Birney saw the highway billboard as the itinerant symbol of American culture. Others saw the American signature in violence, domestic and international. So did George Bowering in his poem "Winning:"

> The general says Peace
> is victory, whose dream of Victory
> is blood oozing from the brain.
> Victory is to the God of War his praise
>
> who never sought for Peace,
> who twists a man in his fire
> & stamps an eagle on him,
> prey-bird that falls on pigeons
> like jet fighters
> on the lonely bicycles of Asia.
>
> "Peace" – the sergeant holds his
> machine gun,
>
> "Peace" – the priest holds his silver
> cross
>
> The Eagle laughs.
> He is 50,000 feet above the ground
> of Asia.

Barry Lord, a poet, artist and art critic, says in "Miracles:"

> The U.S. empire rules by force and causes
> death and destruction wherever it
> holds power. It is the military, economic,
> social and psychological source of aggression
> in the world today.

Raymond Souster, in "Death Chant for Mr. Johnson's America", says:

> America
> you seem to be dying
> America
> moving across the forty-ninth parallel each day a stronger
> more death-laden stench; wafting inshore from off the
> Great Lakes the same unmistakable stink, so unlike
> the usual putrefaction of these waters.

Incidentally, this is a common theme: for example, in Patrick McFadden's "The Crossing of Lake Ontario." He used Lake Ontario as a kind of River Styx, with hell on the other side, and everything between.

Here is C. J. Newman, the poet:

> America you bastard, murderer of dreams;
> And dreams are your most innocent murders;
> Seed blaster, hardened ghoul.
> America, America, the burnt seed lies by the
> side of your turnpikes, auto graveyards, motels,
> cities, military camps;
> The heaped-up contempt of every dream of paradise
> on earth,
> Stinking your dreams.
> The burnt seed shines darkly,
> Blasting out the sun.

Of course, if the United States is so terrible and Canada so vulnerable, those that suggest integration are, in effect, traitors. So Dennis Lee has just published a collection about the difficulty of living on other planets:

> When I went up to Ottawa,
> I met a man who sang tra-la.
> "What did you do with the country today?"
> --"I gave it away to the U.S.A."

And here is Robin Mathews in "Centennial Song:"

> Canada my beauty, everybody's love;
> White flower of the diamond-studded North;
> Let me tell you that a tired prostitute
> Beyond her prime, dejected hungry, full of
> malice and uncertain fear,
> Would throw her charms away less openly,
> Would exercise more choice than you have ever done;
> Would charge at least a reasonable rate;
> Would try and be, within the perils of the trade,
> A self-respecting whore.

In the debate I see the People of the Word fitting into mostly three groups. There are, of course, the writers, and they are emerging, and we will be hearing more from them. There is the church, the moral lobby, and I think it is quite clear that the Catholic Bishop's statement is totally against free trade. The United Church, the Anglican

Church – there is a general consensus, I would say, among the most active church people who formulate their papers, against free trade. And thirdly there are labor unions.

I bring out these things because I think there is something unrealistic about the conference today without them. Because the debate – its going to take place for a while yet – it is not going to be a debate among economists. It is going to be a debate, to some extent, among politicians, who are going to evaluate strong currents, but one of the major features is this long secular tradition in Canada of anti-Americanism.

We are the first anti-American country. French Canadians were constantly at war with New England, and later the United Empire Loyalists came up as refugees from revolution, and they were totally anti-revolutionary, and this has been sort of a tradition throughout, going right down our history. Most of us are only vaguely aware of it. It pops up here and there, and yet it does permeate at least the productions of the intellectuals. And that is why I decided to take them as my theme today.

V

Exploring the Pros and Cons

Some Observations on the Canada-U.S. Free Trade Deal

Richard G. Harris

As of today, Friday, November the thirteenth, we have been told that the deal, although broadly framed within the terms originally agreed to in October, is still under negotiation. In these circumstances it is somewhat difficult to offer definitive comments as to the merits or demerits of the "deal". Nevertheless I shall try to offer some perspective on the free trade debate within Canada, and the deal itself as outlined in the governments' initial releases, and subsequent press reports.

Let me begin by first noting that I personally have been, and remain, a strong supporter of trade liberalization. Much of my research in recent years has been about the impact of trade liberalization on the Canadian economy. However, being in favour of trade liberalization does little to distinguish oneself these days, since even the most ardent opponents of the current 'deal' are careful to tell us that they too favour trade liberalization, but not that envisaged in this particular deal. There are two parts of the existing deal which I unambiguously support; the reductions in tariffs by both countries, and the relaxation of restrictions on foreign investment rules within Canada. These are clearly liberalizing measures in the broadest sense, and should lead to greater economic efficiency and enhance economic growth, both within Canada and the United States. In and of themselves they would constitute important policy initiatives with relatively small costs, and important benefits. It is unfortunate therefore that the debate has taken on rather grand dimensions, and a sort of "pollyanna" tone, in which claims made by both the proponents and opponents have reached rather ridiculous heights. In my remarks I shall try to be candid about what can be said as to the *economic* merits of the deal, as distinct to its perceived broader implications on the Canadian identity. Let me say at the outset that I personally have no doubt as to the notion of a Canadian identity and am

confident that this trade deal, or any other deal we might strike in the future based on more open trading relations, will not deal even a mild blow to Canada's identity as a nation. The nationalist position on this particular point is unsupported by any evidence or precedent in modern times, and there are numerous examples which in fact provide quite the opposite conclusion.

With this caveat let me turn now to the substance of the economic argument in the free trade debate. It is unfortunate that claims are being made about trade liberalization which clearly smack of oversell and are perhaps creating expectations which are unlikely ever to be met. Let me list the objectives of free trade as put forth by some of the more ardent proponents. These include

1. An improvement in Canadian real income, wages and productivity;
2. An increased number of jobs;
3. Reduced exposure to future and current U.S. protectionism;
4. Reduced competitive pressures from the Developing Countries and Newly Industrializing Countries (NC's);
5. Mitigation the pressures of global macroeconomic imbalances;
6. Reduced tensions between the provinces and between the provinces and the federal government.

One can find statements somewhere as to how Canada-U.S. free trade is going to achieve these objectives. Unfortunately it seems to me that with the important exception of item 1, and possibly some progress on 4 and 6, the current deal is ambiguous with respect to the other objectives. The impact this deal will have on the Canadian economic union is potentially quite interesting and I shall spend a good part of my remarks in addressing this issue.

Anyone who has followed the free-trade debate in the economics literature should be aware that the important case for free-trade has always been an improvement in the standard of living – item 1. Here I remain firmly committed to the view that even excluding non-tariff barriers we are likely to raise the level of Canadian real income by something between 3 to 4 percent – not an immodest achievement for economic policy. This will be largely an increase in real wages within manufacturing, and lower consumer prices. The adjustment costs of such changes should be modest with little increase if any in the unemployment rate over an adjustment period of either five or ten years. The improved productivity of Canadian industry through greater specialization and larger economies of scale should serve to mitigate the competitive pressures on traditional manufacturing coming from low wage countries. However, it is fairly obvious that this pressure will not be eliminated. It is worth pointing out that both Canada and the United States, and all the O.E.C.D. countries, are extremely protectionist vis-a-vis the Developing countries. This deal does little to address this particular problem, which is much more serious on a global perspective.

With respect to the other objectives of the deal, my feeling is that Canadians are being quite unrealistic in expecting much improvement on most of these. First, the jobs issue. In the short term any increase in the demand for Canadian exports will run into

short-run supply inelasticity in export-oriented industries. Even over the medium term the principal effect is likely to be an increase in the real wages of skilled workers in manufacturing. Increases in real income over the medium term should spill over into the general demand for labour in the economy, but I have no reason to believe this demand will be concentrated in sectors or regions which are particularly prone to high rates of unemployment. In general I think that free trade with the United States is unlikely to change the natural rate of unemployment in Canada. I certainly am unaware of any evidence which suggests that this might occur. Over the longer term the principal jobs issue is the quality as opposed to the quantity of the jobs. Free trade should ensure that jobs for skilled Canadians are both high paying and secure, with low rates of turnover. While on the general subject I might add that the hysteria of 400,000 jobs for women being lost seems to me to be just that – hysteria. I know of no evidence which suggests anything like these numbers – even remotely in the worst-case scenario. My own worst-case scenario suggests at most ten to twenty thousand jobs might be lost, and the more likely effect is a small net job creation effect in the short run.

Secondly, is the issue of 'market access', or alternatively the prospects of future U.S. protectionism. At this date the current deal is far from clear. The proposed dispute settlement mechanism is a long way from 'secure access', although it is argued that it introduces an element of objectivity in the administration of U.S. and Canadian 'fair trade laws' which is currently lacking. I find it difficult to be enthusiastic about this part of the deal. On the other hand, as has been noted by a number of observers, it is not clear what could have been expected given the current mood of the U.S. Congress. If we have genuinely achieved objectivity in the application of U.S. trade law then clearly this is an improvement. What worries me is that the longer term outcome of this particular resolution of the market access issue will prove to be detrimental to trade liberalization in the true sense of the term. Both countries' 'fair trade' laws covering anti-dumping, countervail and safeguards are in my view deeply protectionist. The administrative procedures through which these laws operate are essentially 'protection on demand' with a fairly elastic supply curve! Unfortunately these laws operate with the moral authority of our respective legal systems. The net effect is to provide through precedents and legislation a set of institutions, including the legal profession who profit greatly from such laws, which have become ingrained in the commercial fabric of both countries. It is quite possible that by adding an additional layer of administrative judgement on this process we merely add legitimacy to a set of laws whose removal should be the first objective of true free trade. History shows that it is generally easier to make new laws which confer benefits on particular interest groups, than it is to remove old laws which would enhance the public interest, but result in eliminating rents to easily identifiable interest groups. One could be more positive if the dispute mechanism were anything more than a legal court of appeal, with limited powers. I think the case could be made that if my fears are justified, future elimination or changes in these laws might be more easily accomplished if the binational dispute panel were not in place. The 'capture theory of regulation' put forward by George Stigler strongly suggests that we have little reason to be enthusiastic about this body. Rent sharing between producers and labour unions on both sides of the border might be accomplished more efficiently, but it is

unlikely that enhanced competition between the two countries will be encouraged by this institution.

What about broad-based U.S. protectionism against Canada such as the use of tariffs or quotas? It is clear that this deal does provide us with that kind of protection. Furthermore it seems unlikely that Canada could be forced into a type of 'voluntary export restraint' agreement such as the Japanese have experienced under the spirit of the deal. On this front then, the deal seems like a fairly major achievement. It gives us considerably more security than we currently enjoy under the GATT. This is clearly a major achievement of the deal, and should be viewed favourably by all Canadians.

With respect to the fifth objective I think there is clearly little reason for optimism. The twin deficits in the United States will continue to cause problems, and quite possibly a world recession in the near future. It should be realized that the boom in manufactured exports to the U.S. from Canada is unlikely to continue. Canadian costs are falling more rapidly relative to Europe and Japan than the U.S., and our trade deficits with those regions should eventually turn into surpluses as the Canadian dollar depreciation against those currencies slowly takes effect. One benefit of this macroeconomic shift is that it is quite likely U.S. protectionism will abate to a considerable degree, but increase in Japan and Europe. The benefits of the deal should be viewed in a long run perspective.

The last objective was policy co-ordination and the reduction of tension between Ottawa and the Provinces. I think the globalization of markets has made life extremely difficult for politicians in small open economies, as they try to influence events which are largely outside their control. Unfortunately, this too often leads to knee-jerk decision making and voter dissatisfaction, with a resulting turnover of political leadership which is not conducive to longer term sensible policy making. Canadian trade and industrial policy is clearly hampered by mixed federal-provincial responsibility on these matters which results in the lack of a clear direction in policy, and in provincial politicians attempting to shift the blame to their federal counterparts. The case can be made that Canada would be better served by either complete centralization of these powers, or complete decentralization. Since the case for the former is obvious, let me make the case for the latter, and then argue that the free trade deal may actually produce a realignment of interests within Canada in a positive way.

Proponents of the free trade deal have often argued that one of its merits would be a reduction in discretionary provincial powers, which in turn would enhance trade and factor movements between the provinces; that is an improvement in the efficiency of the internal Canadian common market. This argument is interesting but one not carried to its logical conclusion. The principal *fact* of the Canadian economic union is that it is a union not based on a large degree of mutual economic interest. In the absence of significant external barriers, the raising of barriers between the provinces has relatively low costs in terms of reduced provincial GDP's basically because the natural flow of trade is north-south. Furthermore, the benefits of protection within Canada accrue almost in total to manufacturing within Ontario in the short run, and the costs of this protection are borne by the rest of Canada. This asymmetry in the costs and benefits of protection versus economic integration of the provinces within Canada manifests fairly obviously in

provincial support of trade liberalization. Ontario's position is that as it has free trade in autos it doesn't really want it in anything else, and should the day ever arrive that protection of its industry is needed it should like to preserve protection as a feasible option. Under existing constitutional arrangements the West, Quebec and the Maritimes are in support of free trade for two reasons; first, they would benefit as consumers of manufactured goods due to lower prices, and also as exporters to the U.S. market. Second, they also support the deal because it provides a means of preventing future Canadian protection which would largely hurt their own regions and benefit Ontario.

One can't help but wonder if Canadian interests are being best served by the existing division of powers between the federal government and provinces, in which a large province like Ontario seems to have the ability substantially to sway federal trade policy. Imagine an alternative situation in which the provinces each controlled their own trade policy and Canada was in fact a free trade area consisting of ten provinces. Under such a regime each province could set its own external trade barriers, but there would be no tariffs on interprovincial trade. In such an arrangement any attempt by Ontario to raise barriers would not require that all other provinces do likewise. The cost to Ontario of protection of its own manufacturing sector would have to be borne internal to the Ontario market; this cost would be quite substantial, and in fact would make the policy self-defeating. If provinces controlled their own external trade barriers, first ministers' meetings would take on an entirely different form, than currently witnessed. Rational economic self-interest on the part of each province should result in free trade both internally and externally. Economic history, however, indicates that unenlightened self-interest with protection is just as likely an outcome. Now the obvious problem with Canada as a free trade association is that any leverage economic size confers in bargaining with other countries would be lost to some extent, unless all provincial premiers acted in unison.

The point of these speculations is obvious. In the absence of strong economic reasons for the Canadian confederation, allowing provincial interests to dictate trade policy will ultimately be self-destructive to the Canadian economic union, in particular if these interests are Ontario interests. Ontario must be willing to accept its fair share of risk in living in a small open economy. The task of the federal government, unless it wishes to lose control of trade policy, is to speak from a genuine perspective of national interest. It is my belief that in the event of a severe loss of export markets, unless this loss is shared evenly across Canada, that the Canadian economic union might well dissolve. A free trade deal with the United States, even an imperfect one such as the one before us, could have the effect of strengthening the Canadian economic union, not because it is likely to enhance free trade between the provinces, although that may in fact occur. More importantly it could strengthen the union because it creates a more even playing field for the provinces in which the risk of living in an open economy, and generating a livelihood through exports is shared by all Canadians in all regions. This commonality of interests may have the effect of strengthening the moral authority of the federal government on trade policy matters.

In summary, the trade deal is clearly far from perfect, but seems an improvement over the current situation. With the exception of my reservations on the dispute settlement mechanism, it seems a constructive approach in a highly imperfect world.

The Draft Agreement: Cohabitation Worth a Try

William G. Watson

The draft trade agreement that Canada and the United States initialled in early October, 1987, requires both countries to deny themselves the exercise of various kinds of policies, in exchange for more secure access to each others' markets. In a sense, a reduction in sovereignty is being traded off against economic advantage.[1]

Most people who construct the Canada-U.S. problem in this way also usually assume that sovereignty and economic advantage are essentially incommensurate, so that any economic benefit which required even a slight reduction in sovereignty would have to be very large, indeed, if the trade-off were to be a favourable one. In this view, though the price of being a Canadian is high it is a price most Canadians are willing to pay. As a Canadian – and at least a mild Canadian nationalist – I probably *would* be willing to pay a substantial price to remain Canadian, if this were necessary. But I suspect the premise is incorrect: in fact, Canadian culture may be distinct enough, and Canadians' desire to sustain it strong enough, that the country need not pay a large economic ransom for its identity. Not surprisingly, therefore, in my view the proposed deal involves an acceptable trade-off. While the economic advantages it brings are not as great as they would have been with a more comprehensive agreement, the various required reductions in sovereignty are not very consequential. On balance, the deal probably is not the best we could have had, but neither is it the worst. And, of course, it is the only deal we've got. Though final judgement must await a final agreement, my initial reaction is that it is a deal worth making. My absolute bottom line, however, is that we should adopt an empirical approach to the agreement. Even among Canadians predisposed to support the deal, there is understandable concern about how the new institutions it creates are going to operate. Since the deal calls for five to seven more

years of negotiation on the dispute-settlement mechanism, anyway, and then a formal opportunity abrogation, there is no reason to regard any decision made in 1987 or 1988 as final. If the deal works well for us over the next few years, we should renew it; if not, we should look for alternative arrangements. Expressing the problem in a metaphor of courtship[2], the proposal before us is not so much an economic marriage contract as an agreement to try living-together. This may lead to more permanent economic ties, but if not, then the parties are free--and should be prepared – to walk.

The crucial elements of the deal seem to me to be the dispute-settlement mechanism, the restriction of Canada's ability to review investment, and the provisions on energy. Before assessing these, I want to make one general comment and then briefly review some of the deal's other provisions. The general comment is, in effect, that this is not such a big deal – in at least two senses of that term. It is true in the literal sense, in that the deal is much less comprehensive than many people hoped and, in fact, had good reason to expect. It is mainly a deal between federal governments and, even at that there are significant exclusions. But it is also not such a big deal – and shouldn't be made such a big deal of – in the figurative sense. The customary assertion of the opponents of the deal to the contrary, the country is *not* at risk. Those who think so either greatly underestimate the country or make the classic and often self-interested error of identifying the strength of the Canadian state with the strength of the Canadian nation. Moreover, if we were going to lose the nation because of trade liberalization, we would have lost it when the tariffs were falling from 30 per cent to 7, not when they are falling from 7 to zero. Opponents of the deal would therefore do the country a service if they cooled their emotional appeal[3].

On the other hand, despite what many proponents of free trade say, I doubt the sky will fall[4] if we do not get a deal. Canadian failure to ratify the agreement – or, worse, abrogation of a signed treaty after the next federal election – would poison the atmospherics of Canada-U.S. relations for some time to come. At the very least, we would have great difficulty persuading the Americans they should exempt us from their more aggressive actions against the Europeans and Japanese. "We offered you comprehensive exemption and you refused it" would be their very natural response. On the other hand, interest, not atmospherics, is the main determinant of relations between countries and on both sides of the 49th parallel there is widespread interest favouring good economic and political relations. Moreover, even if the United States *were* to take a slightly harder line on Canada as a result of an aborted agreement, there is reason to suppose that its overall approach to international economic relations will be less protectionist in future than it has been. The current protectionist binge is mainly a hangover from the United States' having fiscally bootstrapped its way out of the 1981-2 recession, well before its major trading partners, with the consequent overvaluation[5] of the U.S. dollar, which lasted until 1986. The recent decline of the dollar is finally beginning to reduce the U.S. trade deficit, and, once the 1988 elections are passed, this should lower the temperature in Congress.

Finally, though dealing with U.S. protectionism has unsettled many Canadian producers we have hardly done badly in our recent trade with the United States. Even sectors hit by contingency protection have been hit mainly as part of a rearguard action. No doubt Canadian exports are not as great as they might be, but they can hardly be

regarded as having lagged. Thus the proponents of free trade should also tone down their rhetoric: walking away from the deal may well be ill-advised, but it is unlikely to be disastrous[6].

I now want to make several minor points before discussing what seem to me the main components of the agreement.

1. To begin with, our social programmes clearly were not and will not be on the table. Moreover, it is simply wrong to suppose that trade liberalization necessarily requires harmonization of social programmes. There is, for example, considerable lack of harmony on social matters in the European Free Trade Area. And for those who dislike comparisons with the obviously culturally distinct European countries, our own experience in the 1960s is instructive. That was a period when we both liberalized trade with the United States and introduced significant new differences between our social programmes and theirs. Indeed, to hear many opponents of free trade talk, it seems almost as if Confederation began in the mid-1960s, with Medicare, rather than in the mid-1860s, with the BNA Act. What *did* we do for identity before Medicare?

This is not to say that all of our social programmes will remain untouched under the agreement. Quite the contrary, if the continuing negotiations on anti-dumping and countervail are to have any chance of success, we will have to make concessions in the way we provide industrial and regional development subsidies[7]. In particular, discretionary grants to firms who export in large volume will be regarded by the Americans as mainly an export subsidy – which they probably are – and therefore will have to go if any progress is to be made on joint countervail procedures. Of course, they may have to go, anyway, since even without an agreement they are liable to challenge under U.S. law.

This need not occasion undue regret – except, of course, on the part of recipient firms. Indeed, the reaction of most economists is likely to be "Good riddance!", since of all the ways of assisting regions and industries to grow, firm-specific grants are the least effective and the most prone to corruption (see Usher 1983). For their part, grants to regions or industries or region-wide reductions in tax rates – policies, in short, that are of general application – are *not* likely to be challenged successfully or sacrificed on the bargaining table. Because economists' views on such matters generally are not widely shared, the political price of making concessions in these areas will remain high, in which case the two countries may simply decide to continue with what is currently advertized as an interim dispute-settlement mechanism.

2. To a fashion, at least, culture *was* on the table. It was on the table in a way that most Canadian culture-lobbyists are likely to approve, however[8]. While the agreement confirms the Americans' right to retaliate against our protectionist interventions in the various culture industries[9], it prevents them withdrawing from the agreement over it, and their retaliation is limited to measures of equivalent commercial value. The advantage of this arrangement is that it greatly limits the "price we have to pay to be Canadian". We no longer have to suffer the costs of a tariff on just about

everything in order to assert our cultural identity; instead, our liability is limited to the harm we do American culture-industrialists.

The agreement may also encourage us to deliver our subsidies to culture in a more sensible way. Instead of subsidizing Canadian nationals or Canadian-owned firms who engage in various forms of approved activity, we might well give thought to subsidizing the activities themselves, whether they are undertaken by Canadians or not. For instance, it should matter little whether a movie about Canada has been financed by Canadians or is shown on Canadian-owned screens in Canadian-owned theatres (though this is the approach current and anticipated policies take). Rather, the important activity is exposing Canadians to films, books, recordings, and other forms of art about Canada and the Canadian experience, whether or not the producers of this art are Canadian or American.

What is even more disturbing: the way things currently stand, many programmes aimed at making Canadian culture-producers wealthier, and therefore, presumably, better able to supply Canadian culture, actually create strong incentives to disseminate American culture. This is certainly the case for "simultaneous substitution", for instance (see Watson forthcoming). If the agreement does force us to go about our culture-subsidizing in a smarter way – to stop shooting ourselves in the foot, as it were – then, though it is true we will have been forced into this by the Americans, I am willing to count this in the agreement's favour. Moreover, if we do adopt culture policies that effectively give American firms national treatment, it is entirely possible that such policies will not contravene the unfair competition provisions of the agreement, in which case they could not be penalized, which would mean "the price of being Canadian" was now zero.

3. Despite repeated assurances by the government – and at least one disavowal of these assurances by the American negotiator – the Auto Pact *was* on the table. Whether it was appreciably weakened is not clear, however. Under existing arrangements, if job and investment guarantees are not met, the penalty the firms face is to pay a 9 per cent tariff on cross-border movements of cars and parts. Under the new arrangements, the only possible penalty is withdrawal of duty rebates, which apparently amount to some $300 million annually. While $300 million is nothing to sneeze at, there is no use pretending it is anything like the value of free movement of cars across the border. On the other hand, the guarantees have not been binding in many years, while the new arrangements introduce heavier North-American-content obligations on non-North American producers, which means increased protection for the Big-3 auto companies and their employees. That such provisions have been written into the accord and will therefore be difficult to change probably gives them a longer life than they would have had if the Auto Pact hadn't entered the negotiations. There seems little doubt the Pact would have been subject to renegotiation whether there was an agreement or not. This became inevitable the day the CAW was founded, since it drastically reduced the incentive for UAW leaders to take account of Canadian workers' interests in deciding bargaining and policy strategy.

4. Legally, at least, the adjustment period is not asymmetric, as many people had expected it would be. It may be asymmetric in practice, however, as Canada has more

industries that have tariffs above 20 per cent and will therefore take the full ten years to adjust. So far as one can tell, at the end of five years all industries with tariffs currently less than 20 per cent will have adjusted[10]. But adjustment in the most heavily protected industries will have gone only half way. This suggests that walking away from the agreement at the end of the 5-year negotiation period will be a credible option.

5. On financial services the U.S. producers clearly get more than Canadian producers do (although Canadian consumers benefit). In fact, it is hard to see what we do get, except a promise that neither country is satisfied with current arrangements and is willing to work toward further liberalization, to which the obvious response is that if there really is a strong desire for liberalization, then there should have been more of it in the agreement in the first place.

6. Progress in liberalizing procurement rules was also disappointing. Initial estimates of the deal's impact was that it gave Canada access to a $4-billion larger market and the United States to an extra $500 million of Canadian procurement. We have now heard, however, that these estimates probably overstate the gains by almost twice. Unfortunately, further progress would have required concessions from the provinces[11], which seems not to be permitted in contemporary Canadian confederation. Once the agreement is in place, however, it may be possible to build up case law to the effect that discriminatory procurement rules at the provincial and state level violate its spirit. It will also be possible to pursue negotiations in this area once the initial political costs of the agreement have been absorbed. But it would be unwise to hope for speedy progress.

7. Finally, despite hints to the contrary, beer ends up not to have been on the table. It should have been[12], not only because there is much room for improvement in the industry's efficiency, but also because, as the recent GATT ruling makes clear, our alcohol production and distribution practices are notoriously discriminatory and in all likelihood are doomed internationally, anyway. Of course, the Americans may have realized this and therefore would have been unwilling to offer anything in return for concessions in beer, in which case it makes perfect sense for the federal government to let GATT take the political heat for prospective rationalization in the industry, rather than have it fall on their Canada-U.S. trade agreement. A second reason why the Americans may not have been all that eager to undo Canada's oligopolistic arrangements in beer is simply that through their licensing agreements with the Canadian brewers they may themselves share in any excess profits the industry earns.

I turn now to the three issues that seem likely to dominate the Canadian debate: investment, energy, and the dispute-settlement mechanism.

To begin with: investment. Both countries get the right of establishment; we give up the right of review for takeovers of firms with less than $150 million[13] in assets; and we are no longer able to extract performance guarantees from firms whose takeover we approve – which presumably means we can either allow or disallow the takeover but can make no conditions to it. These restrictions hold only where U.S. firms are involved or where performance requirements on other country's firms would affect U.S.-owned competitors. We also retain the right of review below $150 million in assets in selected

industries, particularly cultural industries. Finally, if one U.S. firm takes over another and as a result a Canadian subsidiary changes hands, we are unable even to review the transaction.

Granting the right of establishment is not a large concession. "Jobs, jobs, jobs" have been, are, and always will be so preponderant in the Canadian political calculus that even FIRA in its heyday was generally very reluctant to limit the entry of new firms into the Canadian market.

Limiting the right of review of takeovers to firms with more than $150 million is also a relatively minor concession. The fact is that $150 million just isn't that big any more. In 1987 the 300th-largest firm (by assets) on the *Financial Post 500* had assets of $150.995 million, while even among firms 500-600 (by sales) 14 had more than $150 million in assets. In addition, 13 of the top 100 privately-held companies had more than $150 million in assets; all of the top 100 financial firms had assets over $150 million[14]; and so did the top 25 life insurance companies, *and* the top 15 general insurers, *and* the top 4 investment dealers[15]. According to 1984 CALURA data[16], firms with over $150 million in assets (in $1984, not $1991!) account for slightly over one half of all Canadian corporate assets. So the restriction on investment review is not as great as might first be thought by people. Add to this, first, that screening investment is a highly non-scientific and therefore necessarily very arbitrary activity, and, second, that the agreement's trade provisions may well affect investment flows "favourably"—i.e., by allowing many Canadian-owned firms to keep their production facilities in Canada—and the investment concessions seem minor.

The deal's second controversial area is energy. On first reading, it seems as if the United States has forced us into a one-price system, in which we are not permitted to charge lower energy prices to Canadians than we charge to Americans. This is not the construction the provinces put on this provision of the agreement, however[17]. In their view, they are still free to set whatever prices they like in their exports to the United States. Rather, the Canadian concession is that the National Energy Board will no longer subject such prices to its discriminatory-pricing test, under which prices cannot be lower than the Americans' alternative cost, nor lower than other provinces' best offer for similar contracts. Nothing requires the provinces to charge the same price at home as they do in the U.S. market, however. Exactly how this provision works presumably will be cleared up in the final document, but on this interpretation it appears that this is a concession by the federal government to the provinces, rather than (mainly) the Americans.

The second major agreement in the energy sector is that the National Energy Board's role in exporting will be restricted to monitoring what goes on. Would-be exporters may still have to obtain export permits from the NEB, but the Board will be permitted to restrict the number of permits only in the case of declared shortages, in which case exports cannot be reduced as a percentage of domestic production or consumption[18]. Although this may not be a great constraint on our future behaviour it would have constrained our response to the oil crisis of 1973 quite significantly.

In 1973 we exported 58 per cent of our crude oil production[19] to the United States. To be sure, because of big increases in the early 1970s this was well above the historical average. On the other hand, in the years immediately following OPEC-I we reduced exports to levels considerably below the historical average. By 1980, when they bottomed out, exports were at only 6.1 per cent of domestic production[20]. Production did decline post-1973, so under the agreement's terms we would have been permitted to cut exports, but our behaviour obviously was inconsistent with any rule of proportionality. Of course, if we'd *had* a rule of proportionality, we probably would not have allowed exports to rise to over half of domestic production in the first place, but since many fewer people predicted the oil crisis than now let on, we may well have found ourselves overcommitted to the United States, in which case we might have had to withdraw from a trade agreement rather than comply with the proportionality rule.

In natural gas and electricity the post-1973 cutbacks in exports were not as sharp as in crude oil. In 1973 we were exporting 72.8 per cent of domestic production, which actually was down from 81.2 per cent in 1971. After 1973 the export ratio declined more or less steadily to 44.8 per cent in 1984. Similarly, electricity exports were 6.9 per cent of domestic production in 1973, fell slightly thereafter, and began to climb again in the late 1970s. In both markets, however, domestic production did not decline, so it would have been hard to plead shortages.

It should be noted, however, that, at least in the first years following OPEC-I, reductions in exports, particularly of crude oil, were not necessarily our idea. The National Energy Board Annual Report of 1974 notes rather wistfully that the Americans had not taken up all the oil exports that had been approved by the Board. The free-trade agreement clearly does not rule out mutually agreeable declines in exports; it merely says that unilateral decisions not to export must be subject to constraints. Having said that, it strikes me that writing the rules by which these understandings will be made operational is not likely to be easy.

Knowledge that exporting now means risking the chance that exports cannot be significantly reduced in future is likely to change Canadian export behaviour. Beyond that, the agreement does not impose very many restrictions on Canadian rights of ownership of the resources. We are still free to sell or not sell and we can still determine the price at which we sell. The one difference the agreement makes is that in future these decisions will be taken almost exclusively at the provincial level in Canada. The National Energy Board's influence on energy policy is reduced dramatically, to such an extent, in fact, that it is not an exaggeration to think of the agreement as being essentially a Meech Lake for energy[21]. In future, decisions about the optimal rate of depletion of Canadian energy resources will be made by the provincial premiers, who are hardly a self-restrained lot and often find themselves in competition with one another. If Atlantic oil eventually does come on line in substantial quantities, which is not impossible, it is not unrealistic to imagine the Maritimes and Alberta bidding against each other for export contracts. In such cases[22], intervention by the NEB could play a useful role in limiting provincial underbidding of one another. Thus the concessions on energy must be counted as a cost of the agreement, though the concessions were as much from the federal government to the provinces as from Canada to the United States.

The final and (I expect) most fundamental part of the agreement concerns market access and the dispute-settlement mechanism. The considerable benefit that arises from simple elimination of tariffs should not be underestimated. Even unilateral elimination of tariffs by Canada would bring about significant efficiencies and therefore net gains in income, though we would be unlikely to eliminate our tariffs except as part of a free-trade deal. On the other hand, if Canada is to enjoy the full benefits of access to the U.S. market in terms of investment and specialization, access must be as secure as possible. A dispute-settlement mechanism in which both parties have confidence is clearly necessary to this security.

The settlement mechanism in the agreement does envision considerable regularization of the two countries' trading relations. We get a number of very useful things out of it: compulsory consultation on changes in law, plus evaluation of such changes by a binational panel, plus the right of retaliation or withdrawal from the agreement if the panel rules in our favour. We also get exemption from future changes in U.S. trade law unless we are specifically included. Here is where Richard Harris may be excessively pessimistic in thinking that the agreement freezes U.S. trade-remedy law in its current, from our view hostile incarnation: we can continue to encourage further liberalization in their laws[23].

In addition, we get a trade commission to regulate the agreement, as well as language that says that on particular disputes the commission "normally" will act on the recommendations of binational panels set up to investigate them. Finally, we get a system of binding tribunals on anti-dumping and countervail, although the tribunals are restricted to applying home-country laws against complaints from the other party, which is far short of the court of first resort that was the official objective of the Canadian team. It does have advantages, however, the most important being that it produces a decision within 11 months of an unfavourable finding by either country's trade administrators. The other major advantage is that, at least according to the *Elements of the Agreement*, the panel's decision is binding[24]. Together, these two provisions will go a long way to reducing "process protectionism".

Finally, there is also a commitment to keep negotiating for the next five to seven years in an attempt to develop common laws on subsidies and countervail, in which case the tribunals presumably would become a court of first resort. If we do manage to develop a common view in these areas, this would be a major breakthrough in our trading relations, and also a very useful precedent for future GATT negotiations. I would hate to see the possibility of such a breakthrough abandoned – as it almost surely would be – by a decision now to walk away from the agreement. On the other hand, the prospects for successful negotiations should not be over-estimated. There are[25] quite substantial differences in the two countries' conventions about what constitutes a subsidy. And, of course, with our interventionist culture, it is Canada that generally is the more reluctant to abandon the right to subsidize and protect almost wherever and whenever it wants to. My own view is that our habitual modes of thought place far too much importance on this perceived right, but that is a minority view and the political difficulty in moving to effective joint law on subsidies will be considerable.

It may well turn out that we are unable to make the tribunals into a court of first resort and that at the end of five years we will be stuck with a choice of abrogating the agreement, as the agreement allows, or making what was essentially an improvised interim system permanent. It is not inconceivable that, assuming the next five years' experience with the tribunal system is not characterized by 3-2 decisions along national lines, we will simply decide to continue the interim system indefinitely. Much will depend on our willingness to make compromises in our subsidy practices in response to what will be perceived as American pressure. At the moment, that would be a difficult political burden to toss onto the already considerable weight represented by any move toward free trade with the United States. After five years' experience with the agreement, however, Canadians may well be less anxious about the potentially corrosive effects of closer ties with the Americans on our nationhood.

Since the agreement does provide for a natural period of reassessment at the five-year and seven-year marks, I think an experimental approach is best. The agreement is not nearly so bad that we should walk away from it. Quite the contrary, it may work out very well for us, though much will depend on whether the dispute-settlement mechanism does successfully de-politicize our disputes with the United States.[26] The U.S.-Canada Trade Commission and the panels on which it will rely constitute, in the jargon, a "repeated game". The problem with repeated games is that it is hard to know **a priori** how they will work out: they may move very quickly to a co-operative solution, or they may spend a long time in low-level, non-co-operative equilibrium. Since we have the opportunity to go through several repetitions of the game before we decide whether we like it or not, it seems to me that is a sensible thing to do. When we have more information about how the repeated game is going we will be able to make a more sensible longer-term decision. To return to the metaphor introduced earlier: after five to seven years of living together we will then choose among three options: 1. taking the next step and getting married; 2. breaking off the relationship and – disappointed, frustrated, perhaps, and certainly wiser – going our separate ways, or 3. (what I think most likely) deciding to continue living together, for, as is well known, this offers many of the pleasures of marriage without some of the more onerous responsibilities.

Notes

1. Though only in a sense, since the countries enter the agreement as sovereign nations, are free, under very limited conditions, to leave the agreement, and retain considerable freedom in setting economic and other policies even while they are subject to it.

2. Which is dangerous rhetorically since it invites the obvious comment that someone is being screwed. My own hope is, rather, that the agreement will lead to fruitful and mutually invigorating intercourse.

3. The level of the debate is falling rapidly. A recently-published collection of anti-free trade pieces entitled *Canada Not For Sale: The Case Against Free Trade* shows an angry-looking American eagle making off with a tattered maple-leaf flag. Its subheads read:

Why you may lose your job
How the quality of your life will deteriorate
Why you may lose your cultural heritage
How Canada may disappear as a country
If Brian Mulroney has his way

4. Though the government might.

5. Many people would say, though optimal values are hard to calculate.

6. The only groups who should be allowed to be emotional about the deal are those whose jobs clearly are at risk, such as people in the Niagara peninsula. The government should take *their* emotions seriously by providing generous adjustment assistance, though, judging from statements made by Finance Minister Wilson, this seems unlikely.

7. Despite protestations from the Canadian negotiators that it was the Americans, not us, who refused to move in these areas, I suspect the government simply concluded that forced abandonment of selective subsidies, added to the agreement's other restraints on government intervention, would simply be too great a political cost to be swallowed all at once.

8. Though it is as true for Canadian culture-workers as it is for GM that what is good for them is not necessarily good for the country.

9. Is the sheet music industry, which is protected under this section of the agreement, really necessary to Canadian cultural survival?

10. Unless they have taken advantage of the agreement's slowdown provisions, which can be invoked when scheduled tariff reductions cause import surges.

11. And the states, too, though U.S. constitutional law on treaties makes it easier for the federal government to bind the states than is true in Canada.

12. It always should be!

13. In 1992 dollars.

14. Though there are obvious problems with double-counting of assets when it comes to financial firms.

15. See "The Financial Post 500: Summer 1987", *Financial Post Magazine*, May 18, 1987.

16. Which, unfortunately, are not set up to provide precisely the information wanted.

17. Here my source is Quebec Energy Minister John Ciaccia's remarks to the McGill Centre for the Study of Regulated Industry (16 November 1987).

18. Exactly which is not yet clear.

19. And 39.8 per cent of crude oil availability (defined as production plus imports).

20. And only 4.7 per cent of availability.

21. It should not be forgotten, however, that the original modern concession of resource ownership to the provinces was made in 1982, not 1987.

22. And similar cases in gas and electricity.

23. And they can do the same for us, of course. On the other hand, if the agreement sends the message that we are more or less happy with U.S. trade-remedy law then it will be easier for the United States *not* to make changes. Only history will tell (and since hindsight is seldom 20/20, it won't tell unequivocally) whether it would have been a better strategy in 1984-7 simply to lobby as long and hard as we could against special protection.

24. Although press reports suggest that in the final version there may be a right of appeal. Since appeal is costly and time-consuming, if the tribunals are perceived as being fair, this may not be a great problem.

25. As Wonnacott 1987:83-102 argues.

26. I.M. Destler argues that taking disputes out of the political arena has been the standard technique for achieving trade liberalization in the postwar period (see Destler 1986).

References

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Free Trade and the European Experience

Murray Smith

I thought I might begin with a joke, and I found one that may have some relevance – at least by the end of my remarks. It comes from the New Zealand Journal of Foreign Affairs. Arthur Dunkel, Director General of the GATT (General Agreement on Tariffs and Trade), in great despair about prospects for the world trading system, and thinking that he needs to consult with a higher authority, arranges a meeting with God. In his consultation he says, "Will the United States ever again be interested in liberalizing world trade on a multilateral basis?" And God says, "Not in President Reagan's lifetime". Arthur Dunkel takes heart from this, and he says, "Will Japan ever be interested in liberalizing trade on a multilateral basis?" God says, "You are still a young man; perhaps in your lifetime". Finally the really tough question: "Will the European Community ever be prepared to liberalize trade on a multilateral basis?" And God says, "Not in my lifetime, my son!"

I will discuss three topics in my remarks: to compare the Canada-U.S. Free Trade Agreement with other trading arrangements; to consider briefly concerns in Canada about economic adjustments and sovereignty; and at the end to return to the implication of the Canada-U.S. Agreement for the GATT system and the Uruguay Round.

We all face some difficulty in the sense that we are talking upon the basis of the Elements of Agreement as outlined in the preliminary transcript concluded in Washington on October 4th (1987). Although there are continuing difficulties, I gather, in interpreting all of the specific elements of that document, I think the basic character of the proposed trade agreement is clear. And we can tell a great deal about its ultimate

shape, not only when the draft text is tabled, but, if and when the document is fully implemented at the end of the century.

The first observation I would make is that the proposed agreement is a classical free trade area, consistent with Article 24 of the GATT. Canadians tend to conceive of this proposed agreement as something that is uniquely Canadian, or uniquely North American. Many other countries are party to free trade areas, and this agreement conforms in broad outline with many of their agreements. It provides for elimination of tariffs over ten years; there are clear predictable rules of origin, based on changes in tariff classification; and each country will continue to pursue independent commercial relations with respect to third countries.

After three or four years of the free trade debate in Canada I wish that there was broader understanding among Canadians about what the elements of a free trade area actually involve. This agreement is very similar to the agreements which exist both within the European free trade association (EFTA) and bilateral free trade agreements between these smaller European countries and the European Community (EFTA-EC). Other free trade areas include Australia-New Zealand, as well as several among developing countries.

In comparing the technical aspects of this agreement with some of the other agreements, particularly among those of the developed countries, I give the negotiators full marks on their technical precision. The rules of origin in this agreement are very clear and predictable, with much less uncertainty and paper burden than exists in other free trade areas such as the EFTA-EC agreements. Nonetheless, I was bemused to see customs officers parading on Parliament Hill protesting free trade. I am certain that more, not fewer customs officials will be required to administer the rules of origin in the Canada-U.S. free trade area. They might have consulted their Swedish, Swiss or Austrian colleagues before they demonstrated, although that may not have dissuaded them in any event.

Canada and the United States are also following previous experience in free trade areas by exempting certain portions of the agricultural sector from the agreement. The GATT rules and past precedents for free trade areas permit the retention of quotas for those commodities where there are supply management regimes, which in Canada we know and love as "marketing boards". Indeed, the United States and Canada contemplate much more sweeping liberalization of agricultural trade through the Uruguay Round of GATT than would result from implementation of the Canada-U.S. Free Trade Agreement. The ruling that has seeped out this week with respect to alcoholic beverages in the GATT is another illustration of where GATT obligations may go farther than those in the proposed Canada-U.S. Agreement.

But if the Canada-U.S. Agreement is a classic free trade area, in many senses, there are also some difficult issues, which were much more difficult to resolve in the negotiations, and where past experience is somewhat less of a guide. These issues include subsidies, countervailing duties, barriers to trade in services and investment

issues. Some of these issues involve bilateral irritants and disputes which have been festering for a long time.

These non-tariff issues have been dealt with to varying degrees of effectiveness in previous regional trading arrangements. Free trade areas, such as EFTA or the EFTA-EC agreements, devise rules of competition to deal with non-tariff barriers to trade, particularly trade in goods, and they deal, to some extent, with unfair trade practices. The basic philosophy of EFTA is to focus on those government measures which genuinely distort competition. The EFTA experience of non-tariff barriers has influenced in turn the GATT arrangements. For example, the obligations regarding standards and government procurement that were negotiated in the Tokyo Round are built on the EFTA experience, and in turn the proposed arrangements on these matters in the Canada-U.S. Agreement are built on the joint agreements that Canada and the United States have in the GATT. They are not sweeping and revolutionary changes, but they are further steps to open up, to make more transparent some of the barriers to trade.

It is often hard to explain exactly what a trade agreement on standards means – to translate for the audience I would suggest that it means that we are going to keep bilingual labeling, metric sizes and all those good things that Canadians hold near and dear. Except perhaps for the European Community, there is little prior experience in regional trade arrangements in dealing with disputes over subsidies, countervailing duties or services and investment issues. All of these issues proved very difficult in the bilateral talks, and the issue of trade disputes threatened the collapse of the negotiations at least twice in the final two weeks.

Drafting those rules of competition to deal with subsidies, and allegations of unfair trade practices, and rules to liberalize trade in services and investment, were the major challenges in the Canada-U.S. talks. The two models which provide the most relevant basis for comparison are the rules of competition which are contained in the Stockholm Convention, which created the European Free Trade Association, and the Treaty of Rome, which created the European Economic Community (EC).

Neither of these models provides a perfectly appropriate analogy for Canada and the United States. Instead, the bilateral talks have produced a hybrid, which shares elements of the EFTA system, the EC system, and includes some unique and distinctive elements, not found in any other free trade area.

Other bilateral free trade areas, such as between Switzerland or Austria or Sweden and the European community, or even the U.S. – Israeli Agreement, do not have a formal dispute settlement process as such. What you have is a joint committee of the two governments. All disputes are submitted to a committee of the two governments and that is the sole mechanism for resolution. The mechanism in the Canada-U.S. agreement is unique and represents a very important innovation for resolving trade disputes between sovereign governments.

One element of this whole process is that the rules regarding subsidies, dumping and the application of countervail and dumping duties, which, for the moment, remain those of the national laws of both countries. This issue remains, in a sense,

unresolved – there is a five to seven year window in the Free Trade Agreement for dealing with these items in subsequent negotiations.

The fact that Canada did not get a complete exemption, or removal of U.S. countervailing and anti-dumping duties which, has been greeted with considerable disappointment by many Canadians, particularly among many who were not persuaded that trade negotiations were a good idea in the first place. I would suggest that if it had been possible in this negotiation to develop a set of rules on subsidies and dumping acceptable to the United States, and Canada had agreed to those rules, we might have got removal of anti-dumping and countervailing duties in bilateral trade. But the undertakings, particularly with respect to subsidies, would have caused great concern, particularly among many Canadians who are now concerned that we are not getting the removal of U.S. countervailing duties from our trade.

If we look at other agreements around the world, the only agreement that really does remove countervailing duties is that of the European Community. The European Community has a supranational mechanism through the European Commission and the European Court, to discipline the use of subsidies. I am doubtful that Canada and the United States will ever agree to grant a supranational agency the right to disallow subsidy programs.

I am reasonably optimistic, however, about the prospects for negotiating new bilateral rules to govern antidumping and countervailing duty laws. It is my view that U.S. protectionism will decline in intensity as the U.S. trade deficit begins to turn around in the years ahead. By the early to mid 1990s the United States will be obliged to run a trade surplus to service its mounting foreign liabilities just as Canada must now, and for the foreseeable future, run a trade surplus.

Thus I believe the political climate could gradually become more conducive to the two countries negotiating the removal, on a bilateral basis, of some of the more protectionist provisions of the antidumping and countervailing laws of both countries. But I believe they are unlikely to agree to implement the kind of supranational regulatory regimes for subsidy practices which exist in the European community. Because of the sovereignty concerns of both Canada and the United States it seems unlikely to me that the two countries will ever pursue the EC model. Instead, they are likely to pursue variations on the EFTA approach by focussing on distortions to competition.

In the services and investment areas as well, the proposed Canada-U.S. agreement goes further than the EFTA-EC bilateral agreements, but falls well short of the full commitment to the national treatment which applies within the European Community. Many existing laws and measures which derogate from national treatment are grandfathered on both sides of the border. There is no parallel within the European Community and other trading arrangements, or even within the GATT itself, for the kind of broad exemption for the cultural industries, which exists in the Canada-U.S. trade agreement.

The postal rate subsidy, which Canada will continue to retain, on small foreign magazines (a postal rate differential of about 34 or 35 cents per issue), will be retained under the Canada-U.S. Free Trade Agreement. It is my view that it is contrary to the GATT, and if someone were so inclined they could bring an action under the GATT. But there is clearly nothing in this Free Trade Agreement that touches very deeply into our cultural policies or cultural support policies. Furthermore, the investment provisions permit Canada to continue to screen direct acquisitions through Investment Canada. I suspect that that is a provision that gave some pause to those on the U.S. side of the negotiation, particularly those from the Treasury Department.

But I think the issue that has been perhaps the most controversial on the Canadian side pertains to energy. The language of the Elements document is a bit misleading, in my view, in the energy chapter. My interpretation of that language, and of what I understand of the draft agreement that might lie behind it, is that the energy provision is to be characterized as a special set of exceptions from the general obligations to eliminate tariffs, quotas and other non-tariff barriers. And it also contains exceptions to the investment and services commitments. On the U.S. side, there is only a limited exception on the prohibition of export of North Slope oil. And even that limited exception has drawn considerable fire from the maritime interests in the United States.

On the Canadian side special investment restrictions are retained in the energy sector. Most importantly, both countries retain the right to impose quotas on the various provisions of Article 20 of the GATT. This includes conservation. What are the obligations under the energy provisions? As I understand them, there are no import duties or export taxes that could create artificial differences in domestic and foreign prices of energy. This is precisely the same as the prohibition on export taxes in the Norway-EC bilateral free trade agreement. There will be no non-tariff barriers to energy trade, such as the U.S. uranium enrichment restrictions or Canada's uranium processing requirements. Government rationing of energy will be on a proportional basis, based on a fairly complicated formula. But in any event, the International Energy Agreement, which both countries are signatory to, takes precedence over the Canada-U.S. Agreement. And in the case of severe shortage Canada might be obliged to increase exports of oil under the International Energy Agreement, not simply pro-rationing the shortfall as contemplated in the Canada-U.S. Free Trade Agreement.

Thus I would say that this Canada-U.S. Agreement, in a classic free trade area, is much closer to the model of the European Free Trade Association or the EFTA-EC bilateral trade agreements than the more sweeping integration of the European Community. Canada and the United States do propose to go farther than the EFTA-EC agreements in dealing with investment and services issues, but these provisions are limited in their effects. The proposed agreement involves much more elaborate dispute settlement machinery than exists in the EFTA-EC agreements, but Canada and the United States have shied away from the kinds of supranational controls on subsidies which exist in the European Community.

I would like to peer into a crystal ball and suggest that Canada and the United States are engaged in a process to achieve more open trade, which will be shaped to conform with economic and political realities unique to North America. In my view,

however, the spirit and substance of the Canada-U.S. Agreement is likely to remain closer to the pragmatic approach in free trade areas. Not only will Canada and the United States retain independent commercial policies for trade with third countries, but also I doubt that they will aspire to the more grandiose and supranational machinery of the European Community.

I think the European experience with free trade areas casts some light on Canadian concerns, both with respect to economic adjustment and with respect to some of the sovereignty issues. In terms of the economic adjustment implications, there are two methodologies we might employ. One would be to use various econometric, general equilibrium models, and I assume that Rick Harris will discuss some of those issues with you. I would suggest some historical corroboration with the conclusions from that analysis – that the adjustment implications are not extensive for the Canadian economy. The conclusions are borne out by two episodes of economic integration in Europe. The first episode comes in the 1960s – the formation of the European Community and the European Free Trade Association. Most observers were surprised that when those regional trading arrangements started lowering tariffs, there were no major dislocations of individual industries. Everyone expected that industries would expand in one country and disappear in another. That is not what happened. Instead, expansion of trade happened within industries (intra-industry trade expanded). Companies specialized in narrow product niches, they became more productive. And on the whole there was a very beneficial, not a painful adjustment experience.

But you might say that the 1960s were a period of buoyant economic growth in the world economy. Perhaps that is not the best example to tell us whether opening of trade between industrial countries will cause major adjustments. The second episode in Europe, however, which was in the 1970s, involved the opening of trade between the EFTA countries and the European Community. It was the opening of trade between very small countries such as Austria, Switzerland, Sweden, Norway and Finland, with the much larger economies of the European Community. Furthermore, an economy such as Austria had high tariffs and a lot of German branch plants. They were very concerned about the adjustment issues. They eliminated tariffs over five years, from 1973 to 1978, against the backdrop of a severe recession in Europe accompanying the first oil shock. Again, the adjustment impact, in terms of dislocation and loss of jobs, was much less than anticipated. And from 1973 to 1983 those five small EFTA countries experienced average real economic growth rates that were about one-half percent higher than real growth in the economies of the European Community.

So I would not anticipate major adjustment implications from the proposed Canada-U.S. Trade Agreement, particularly because the phase-in period is ten years, and particularly for the sensitive sectors. I do, however, anticipate a significant contribution to real economic activity in Canada.

I would like to touch briefly on the sovereignty issues as well, difficult issues to deal with because it is hard to define exactly what peoples' concerns are. Let me deal with some concerns I can articulate and understand. One concern is that we will be forced to

harmonize our taxes, our social programs and policies, not because the United States forces us, but because of economic pressures of a more open market.

That is simply a fallacy – anyone who understands a course on the principles of economics will understand that if you remove trade barriers you are not going to effect broad-based social policies. Indeed, I would suggest that for economies already as integrated as ours are – not only in trade in goods, but in the migration of capital and people between the two economies – if anything, liberalization of trade in goods will increase marginally our discretion for income distribution or other social policies. There is nothing in the agreement preventing us from keeping unemployment insurance or medicare, and in fact the liberalization of trade that might occur may help us to afford it.

Another concern that people have is that we are on a slippery slope towards economic integration. The fear is that we have negotiated a free trade area, but then over time the free trade area will eventually become a customs union, then a common market and eventually lead to economic union. The European experience suggests this simply is not true. In fact, the European Community complains that they negotiated free trade agreements with the EFTA countries and there is no momentum for further integration. The EFTA countries get free trade in the industrial sector, but they are not entangled in European agricultural policy, and they do not have twelve languages to deal with in official documents. The EFTA countries are relatively content; they do not wish to go farther in terms of economic integration with the Community.

So I see no evidence at all that there is a slippery slope, that we will devolve from a free trade area into a customs union and then into some more integrated form of agreement. As I suggested earlier, I see nothing in this agreement that impinges on those sensitive areas, particularly in cultural support, where I personally am inclined to support Canadian policies. Nothing impinges upon them, and in fact the agreement may protect them more than our other international agreements.

To get to my concluding remarks, what are the implications of this Free Trade Agreement for the GATT system, and for the Uruguay Round? The kinds of obligations that Canada is entering into are compatible with the GATT and they supplement the GATT arrangements, and in some cases the Canada-U.S. Agreement will be relevant, in others not. The recent ruling on alcoholic beverages is an illustration of how the GATT process may operate, and influence the situation. I do not believe that the free trade arrangement will undermine the GATT system.

At the outset I referred jokingly to the protectionism bias in the European Community, but I believe this is a serious issue. The critical difference between a free trade area and a customs union is that each country keeps an independent commercial policy for purposes of negotiation. I argue elsewhere that the negotiation by Canada and the United States of a free trade area, and the subsequent multilateral negotiation in the Uruguay Round (on tariffs and non-tariff issues) could be a catalyst to the success of the Uruguay Round and serve to strengthen the GATT system.[1]

In assessing these types of trade arrangements – whether a Free Trade Agreement with the United States, or the broader-based General Agreement on Tariffs and

Trade – we must keep in mind a philosophical distinction that is used by some international scholars. There are two types of international systems. One is a rules-based system that settles disputes on the basis of rules; the other a power-based system that settles disputes on the basis of the relative power of the economies involved. I think, concerning the dispute-settlement process, that like the recent decision on the alcoholic beverages, not all Canadians will at all times like the decisions that will come out of either the GATT or the proposed Canada-U.S. Agreement. But I would suggest, as a small country with a much larger economy to the south, and dealing with large economic blocs, such as the European Community and Japan, Canada has a strong interest in a rules-based system for settling disputes, even if we do not always like the outcome of every case.

Notes

1. Murray G. Smith, "What is at Stake", in William Diebold, ed., *Bilateralism, Multilateralism and Canada in U.S. Trade Policy* (Cambridge, Mass: Council on Foreign Relations, 1988).

Free at Last?

Irving Brecher

Some eight months ago, at Phase I of this Conference, I was bold enough – perhaps foolish enough – to attempt a set of predictions on the fate of Canada's free-trade initiative vis-a-vis the United States.[1] Nearly seven months later, on October 3, the two countries signed the "Elements" of a draft agreement.[2] In star-gazing terms, I turned out to be at least as lucky as I had been bold and foolish.

Lucky indeed! Even the complete cynic would hesitate to deny that the negotiations came within a hair's-breadth of terminal collapse – almost another case of "close but no cigar". What is more, the chances of ultimate failure are by no means remote. It would seem therefore, that I should "pick up my betting marbles and run". If, as I have already suggested, the draft agreement gets ratified, then I can join the jackpot club. If, on the other hand, the deal falls through, I can hope that what I had wagered those many months before would be forgotten. No point, it would seem, in updating a high-risk exercise as we draw much nearer to the day of reckoning. Right? Wrong.

I simply cannot resist this particular opportunity to "take a second kick at the can". For one thing, the free-trade story continues to unfold in wondrous ways. Secondly, for *my* part, how else could I discover whether my earlier bet on ratification would have been different if I had known then what I have been able to learn since? Thirdly, for *your* sake, how else could I perhaps say some things that have not been better said by countless others over and over and over again?

It is important to note, at the outset, that not everything has changed since March 1987. There is, for example, the same overblown rhetoric, only more so. While U.S. President Reagan takes flight with world revolution through democracy and free trade,

P.E.I. Premier Ghiz intones that "as a Canadian, I cannot accept the surrender of my country".[3] Thus both sides of the border have distinguished themselves in this regard. First prize must, however, go to Canada's anti-free traders, some of whom sound intoxicated by the exuberance of their own verbosity. Such overkill is likely to be counter-productive with common-sense Canadians.

This is not to say that there are no serious perceptions imbedded in the hostile Canadian rhetoric. Essentially, they take two forms: the fear, older than Confederation, that bilateral free trade would inevitably bring annexation by the United States; and the fear that free trade would, just as inevitably, bring a fatal "Americanization" through overpowering pressures on Canada to make its basic aims and policies conform with those of its giant neighbour. These perceptions will not lie down and die. For *me*, it is sufficient to argue that Canadians have become increasingly self-confident about this country's ability to steer a "Canadian" course in an incredibly interdependent world; and that being swallowed up is about the last thing we should expect from a neighbour which, in Canadian Ambassador Gotlieb's words, is "a pluralistic, competitive, confrontational, litigious, turbulent society, almost totally absorbed in the extraordinarily difficult task of governing itself".[4]

Let me mention several other constants over these last eight months. One is the "benign indifference" of most Americans with respect to the free-trade issue; this is mildly favourable to ratification, in the sense that an adverse public mood would no doubt constrain the U.S. Congress. Far more favourable is the strikingly persistent fact that the Canadian economy *and* Canadian consumers have much to gain from free trade with the United States. While economists continue to debate the precise magnitude of the benefits, few would challenge the proposition that they are significant in terms of incomes and employment, and widespread in terms of regional impact. Lots of Canada's "men (women) in the street" know this too, and they know it well. When faced with the so-called "price for being Canadian", they will be reluctant to pay; when impressed with the strengths of being Canadian, they will refuse.

There is, nonetheless, still plenty of Canadian concern about the transitional costs of job and business dislocation. The federal government has been sending out mixed signals on the need for substantial adjustment policy, and this does not enhance ratification prospects. I note, however, that the Prime Minister and, more recently, the deputy-chief Canadian negotiator have spoken positively on this issue.[5]

A fourth constant is virulent Congressional protectionism on the global front. The Omnibus – or "Ominous" – trade bill waits in the wings. It is not calculated to make good friends beyond the United States. Yet that very same protectionism can be, and has been, an effective argument for all the more urgency in securing Canadian access to the U.S. market.

But if constancy is interesting, change should be fascinating. And so it is with much of the free-trade initiative since last March.

The fact that there is now a draft agreement – "kind of" – represents the most fascinating, and obviously the most important, change of all. Without it, I would be hard-

put to justify my presence as today's luncheon speaker – and, of course, totally incapable of justifying the topic of my address. But leaving my rescue aside, the agreement provides a uniquely concrete focus for the free-trade debate. It challenges proponents of the initiative to strengthen their case. By the same token, it offers *contras* – forgive me for this intentional slip – an opportunity to tie a new down-to-earth string to their ideological bow. And it has a bearing on every other major change on the free-trade stage.

Let me hasten to say that I find it easy to quarrel with the draft agreement. In terms of process, it might be best described as a negotiating nightmare – an ill-prepared U.S. team with unclear authority, wasted months of vacuous bargaining, an avoidable retreat from a single precise text to non-identical summaries, earlier release of the U.S. summary, the drug-patent snafu, and so on. There are also real problems of substance – the brewing-industry exemption, for example, the higher Canadian screening threshold for U.S. takeovers, the limited progress on government procurement and services, a constrained mechanism of dispute settlement. (Ironically enough, the beer exemption could now be nullified by a preliminary GATT ruling that Canada's provinces have been unfairly protecting the beer, wine and liquor industries [*The Globe and Mail*, November 11, 1987, pp. A1 & A2].) A fatally flawed exercise, right? Wrong.

For me, the "bottom lines" read something like this. It "takes two to tango" in a bilateral deal. Neither side should expect full achievement of even its basic aims in a broad, complex bargain. The draft free-trade accord is, arguably, the broadest, most complicated international agreement that Canada has ever negotiated. It brings large gains to Canadian consumers and good prospects for wide, reasonably secure Canadian access to the U.S. market. It eliminates tariffs; improves the Auto Pact; protects our cultural industries; leaves us with non-discriminatory control over energy pricing; retains our foreign-investment restrictions in the energy and cultural sectors, as well as in fishing, transportation and telecommunications; provides a phase-in period for industrial adjustment, and for seeking mutually acceptable subsidy rules; initiates a systematic *binational* approach to resolving disputes. In short, we have, I believe, a draft agreement that is neither riskless nor flawless, but that gives reasonable promise of far more significant benefits than we could hope to reap without it. More important, I am betting that, given careful continuing analysis of the draft's provisions, a great many other Canadians will say "no" to "sellout" slogans and "yes" to an historic change for sensible management of the Canada-U.S. relationship.[6]

It is time, now, to place some additional bets.

U.S. steel, gas, maritime and other business groups are putting their anti-agreement lobby efforts into high gear. They will make plenty of noise. And they will find convenient platforms in a variety of Congressional committees to be set up by the Senate and House of Representatives. Will they succeed? I believe not. Powerful mainstream industry spokesmen will be arrayed against them; so will Treasury Secretary Baker and other committed senior officials in the Reagan Administration. Among those who care, there seems to be a general U.S. sense of substantial gain from the draft agreement (too much gain, according to some Canadian anti-free-traders who used to be saying that there could not be enough U.S. benefits in a draft agreement for

the Americans to sign it). In the end, Congress will mirror that mood. Proposed amendments could, of course, emerge before the final stage of the fast-track process. But I do not see Congress insisting upon, or the President accepting, the kinds of revision that would jeopardize Canadian ratification. Even so, I continue to be more concerned about the final outcome on this side of the border.

Here the battle keeps reaching new levels of verbal violence. Fortunately for Sir Wilfrid Laurier, he no longer has to hear the cries of anguish coming from self-appointed custodians of Canadian nationhood. The House of Commons Standing Committee on External Affairs and International Trade, now in the midst of hearings on the draft agreement, is not so lucky. Its life will be further complicated by debating points scored over the still-missing final text and a truncated hearings process. However, the Committee will also be able to benefit from some pretty solid analysis – in particular, recent Economic Council research showing not only that free trade with the United States would create several hundred thousand new jobs by 1995, but also that the gains would be quite evenly distributed across all provinces, with comparatively few job losses in a handful of declining, highly protected industries.[7] I am betting that the Committee will submit a favourable report to Parliament, perhaps with relatively minor amendments.

Needless to say, the Canadian debate goes on, and will continue, in other places. Within Parliament and beyond, the Liberal Party leader has jumped far off the fence and now argues with his NDP counterpart only about who will be the first to "tear up" any final agreement based on the present draft. It may well be that our U.S. neighbours are watching this spectacle with more bewilderment than concern. In any event, the federal Liberals are unanimously split on the free-trade issue. And the Conservative majority is massive.

The evolving alignment of provincial government premiers poses the more serious problem, in my view – no less for regional harmony than for ratification of the agreement. Ontario's David Peterson, fresh from a stunning triumph at the polls, has come rushing out of the free-trade closet to shout "sellout", to proclaim that "we don't want to become Americans", and (with impeccable shrewdness) to demand a federal election on the proposed deal. He carries a big psychological stick. But then, so does Quebec's Robert Bourassa, who has shed all earlier misgivings to champion the deal. And Premier Ghiz is hardly a match for the three-out-of-four Western premiers allied with Quebec. Besides, Mr. Peterson has stopped calling for a provincial veto; he concedes that the draft agreement is overwhelmingly within federal jurisdiction.

The critical factor, in this context, is the Prime minister's resolve. I cannot deny that I have had doubts. In the light of his negotiating input, however, I am betting that he will stick with the trade deal; that he will move more effectively to reassure Canadians on the government's sensitivity to adjustment costs; and that he will not let himself be goaded into an unnecessary federal election before the House of Commons ratifies the agreement (again, perhaps with relatively minor changes).

But "hold on!", I hear some of you saying, "What about the newly rambunctious, Liberal-dominated Senate?" Yes indeed! With Meech Lake and the drug-patent bill,

"sober second thought" has come a long way. And there may be no constitutional limits on the Senate's ability to block the Reisman-Murphy draft.[8] But precisely because the Senate has become so exposed and politically vulnerable, I believe that while it might delay ratification, it will not kill it. I have to admit, though, that this is my toughest bet of the day.

So here I am, much further out on a limb than I ever expected to be. And the ordeal is not over yet. Even assuming ratification, the next federal election will be fought, in large measure, on the free-trade deal. It is logical for you to ask if that election outcome will not determine whether the agreement lives or dies. Much will, *of course*, depend on the fate of the Conservative government. But this is where I draw the line. I leave to other, more courageous souls the heroic task of predicting election winners and losers.[9] I will venture only the thought that a Conservative defeat would not guarantee revocation of the deal.

At this point, closing remarks are overdue. What I am betting, in essence, is that in the public arena, Canadian common sense will triumph over myth and hyperbole; and that in the political arena, commitment and power will prevail. Well, then, as Martin Luther King would have put it, is Canada-U.S. trade "free at last"? If we mean completely free, certainly not. If we mean an historic October step in that direction, certainly yes. If we mean ratification, don't *count* on it – *bet* on it.

Notes

1. I. Brecher, "The Free-Trade Initiative: On Course or Off?", in *Canadian-American Free Trade: Historical, Political and Economic Dimensions*, eds. A.R. Riggs and T. Velk (Halifax, Nova Scotia: Institute for Research on Public Policy, 1987).

2. Department of External Affairs, *Elements of the Agreement*, Preliminary Transcript of the Canada-U.S. Free Trade Agreement (Ottawa, October 1987).

3. W. Johnson, "Heavy Artillery Opens Up in the Free-Trade Debate", *The Gazette* (Montreal), November 7, 1987, p. B-3.

4. A. Gotlieb, "Canada: A Nation Comes of Age", *The Globe and Mail* (Toronto), October 29, 1987, p. A7.

5. Gordon Ritchie has told the House of Commons Standing Committee on External Affairs and International Trade that "a substantial measure of assistance" would go to Canadians who lose their jobs because of the free-trade agreement; that Ottawa "is prepared to put whatever financial resources it takes" into displaced-worker programs. (Quotations from *The Gazette*, November 3, 1987, p. A-1.)

6. See, in this connection, W.G. Watson, "Why We Should Give Free Trade with the U.S. a Whirl", *The Gazette*, November 6, 1987, p. B-3; also R. Lipsey, "Four Questions for Free Trade Critics", *The Financial Post* (Toronto), November 9-15, 1987, p. 18.

7. See Economic Council of Canada, *Reaching Outward*, Twenty-fourth Annual Review (Ottawa, 1987); and S. Magun, S. Rao and B. Lodh, *Impact of Canada-U.S.*

Free Trade on the Canadian Economy, Economic Council Discussion Paper No. 331 (Ottawa, 1987).

8. See E. Forsey, "Senate within Its Rights over Bill C-22 Revisions", *The Globe and Mail*, November 7, 1987, p. D7.

9. See, for example, W. Johnson, "Turner Is Courting Electoral Disaster", *The Gazette*, October 29, 1987, p. B-3.

Furthering the Free Trade Debate

Carl Beigie

Canada, in my view, is now well launched into what I think is quite clearly the most important debate that the country has ever held. Because of its national significance it is somewhat (and I use the word very carefully) more significant than the 1980 Quebec sovereignty referendum. I think – and I underline that – I think I would support a referendum being held on the matter of Canada-U.S. free trade. I would prefer at this time, however, that this matter be subjected to a good debate. I do not like the idea of an election on the free trade issue. My reservation is that free debate might be frustrated by an election.

In other words, a majority of Canadians might oppose free trade, but with the two opposition parties against it you would split the vote and re-elect the free trade conservatives. I am not passing judgment on whether that would be good or bad. My point is that conservatives could win in that instance with the support of a minority.

The majority of the people of Canada would not like that development, so I, personally, would like to see a fairly serious discussion in this country about a referendum.

Now, unlike the Quebec debate (which I participated in quite actively) this debate has not been heretofore distinguished either by the quality of the arguments or by the sportsmanship of the players. To some the issues are black and white, plain and simple. In the case of the Quebec referendum debate it was separation de facto. In the case of the debate that is going on right now, integration may take place to the point of serious loss, one might even say to the elimination of sovereignty for Canada.

To my thinking both of the debates (I have said this on a number of occasions) involve an essential issue of sovereignty with association. I have tried over the years to make it clear that in my opinion the free-trade debate involves a formalization of the association vis-a-vis Canada and the United States. For this I have had to suffer the slings and arrows of some who think it a terrible way of expressing it, but I am still convinced that is the way to characterize the relationship.

The Canada-United States free trade debate does not strike me as so obviously black and white. When I speak on this particular issue I do so as an economist, and I make no apologies for being one. I am only going to discuss the matter as an economist. As I sat here and listened to a conference speaker I had a "flashback" (the older I get the more flashbacks I get) concerning one of my old professors who got very philosophical toward the end of a course and asked the question why so many deans and senior university administrators were physicists. The reason was, he concluded, that physics changes so massively and dramatically every generation that what you have learned in graduate school prepares you for obsolescence once you have worked in the field for twenty years.

Economists suffer that kind of evolution too. The trouble is that when economists become redundant they become political economists. Everybody and his brother is out there talking as political economists and when they grapple with issues as political economists they become equally sloppy, whichever side of the debate they take. Well, I am an economist, but I am not a political economist because I do not understand political science, having no formal training in it. I make no bones about that. I am not telling you that I am here as a wise man, although when you get beyond a certain level of greyness in the hair, people might say you must be wise.

I am also not here as a lobbyist. I am at this conference as an economist, and as an economist I must ask only a few fundamental questions. To me *the* fundamental question comes down to this: Does an agreement on free trade raise the potential growth path of the Canadian economy significantly above what it otherwise would be?

Will an agreement on free trade raise the potential growth path of the Canadian economy significantly above what it otherwise would be? To me the direction of the change we are going to get out of free trade is quite clear. It is going to be up. There is, however, a very serious question to be added: what will be the magnitude of the change?

One of the difficulties I have with the extremely reputable work of scholars such as Rick Harris is that it is really tough to go out and tell the people of Canada that you want them to take considerable risk for two or three percent in their growth rate, their level of economic well-being. If you talked about raising the growth rate of the economy for a long period of time at the rate of two to three percent, it would be significant, but I do not think that the present projection will sell.

I raised that point in the 1970's with the Economic Council of Canada, with Irving Brecher, a participant in this conference. "Is it really going to be worth it for Canadians to look outward?" There is less certainty in my mind about the magnitude of change and whether it is going to be as great as some have suggested or implied.

Serious economists are not going out to wave the flag. Politicians wishing to make their case for the agreement, in my judgment, overstate the projected benefits. As an economist I cannot deal with the defense rationale of why we must sign. The book that Richard Lipsey and Murray Smith wrote, *Taking the Initiative: Canada's Trade Options in a Turbulent World* (Toronto, 1985), I have a great deal of respect for. A solid piece of work, I have assigned it for my class as a basic text. But Professor Lipsey feels that we are stuck without a serious alternative, and I do not like negotiation from that bargaining position.

The protectionist threat from the United States is not as serious as some would think, and in my view it is overstated. Congressmen advocating protectionist steps might alter their views if we complained loudly enough in Washington. Our attitude is timid, and if we agree from a position of weakness let us "fess up to it", and say we must do the best we can to save our bacon, regardless of the political cost.

Having been a long-time advocate of carrying on the negotiations, I want to see what we can get from them. There have been some important developments over the last 10 or 15 years – the time that I have been teaching a course in economy and business relations. One of these is a trend in industrial development and the trends in economic development around the world. These trends raise a very serious question in my mind about the importance of economics of scale as an argument in favor of increasing access to a large market. Perhaps security of access has little to do with the strict economics of scale.

I strongly believe – and maybe not everybody in the economics profession shares my view – in the importance of some of the work that Robert Raiche has done at the John F. Kennedy School. At a meeting here in Montreal a couple of years ago, he essentially was a strong advocate of free trade with the United States, and I remember asking him this question. "Given your view that you (the United States) are moving away from standardized production to specialized types of production in a high wage country, if you are going to remain a high wage country, how can you justify strong support for free trade between Canada and the United States?" He said essentially that he believed in moving toward more liberalized trade. I happen to share that view. Subsequently, however, Raiche changed his mind. He now feels that with the kind of political environment existing in the United States, free trade is a less attractive option for Canada.

But the tough question to be asking Canadians on this option is what tolerance we will have for a necessary reduction in product choice, at least in the medium term, or what tolerance would we have for taking the necessary steps to increase our access to foreign markets sufficiently to achieve greater efficiency in production through internal specialization? We are in for much less emphasis (in my judgment) on the economics of scale and much more specialization.

Now the case for or against free trade in the economics context, in my judgment (and I feel very strongly about this) should not properly be argued with respect to job gains or job losses. In my judgment, we are dealing with the question of change in the potential output level of the economy. If we raise the productivity advance rate in the

economy, then what we will do in terms of modern macroeconomic analysis is lower the inflation rate characterized by non-accelerating inflation rate from one point. So that's the goal. Lower the unemployment rate at which you can move your economy before you start getting inflationary pressure. Now that, in my view, is what a forward-looking policy would do. It is also what organizations claiming to be doing economic analysis should be explaining to the general public, and I have to say I was not overly impressed with the Economic Council of Canada putting itself into a position where it got into the wrong debate. Unemployment is not going to be seriously and permanently affected one way or another by free trade.

We ought to get that seriously straight, and if we mishandle basic natural economic policy after free trade, if we were to get it, we would still have the problem of unemployment; so let us not go too much further in what, in my judgment, is an incredibly sterile debate. There are adjustment issues involving job creation and job displacement in the near to medium term, no question about that. There is very little in the agreement or in the public discussion of the agreement on this particular point thus far.

Related, as I see it, to the adjustment question is a topic I want to raise but not to debate at great length, and that is the issue of the exchange rate relationship. I have raised this on a number of occasions and I have had rather heated debates with Simon Reisman (Canadian Trade Negotiator) about it. He feels that because of the traditional nature of the general agreement on tariff and trade types of negotiations, we must not muck up the business of the negotiations by throwing in the exchange rate issue. In my judgment, it must not be totally overlooked. I agree totally with what Rick Harris said earlier. To me the U.S. economy is in a truly massive external disequilibrium, truly massive external disequilibrium. It must be, and it will be, no question about it, it will be sorted out. The question is not whether, but when and how. In my judgment the sorting out of this massive external disequilibrium could impact significantly on the Canadian adjustment process. This brings up a transitional set of questions, not involving long term equilibrium. In the long run we are going to have to take what comes out of the exchange rate mechanism or we are being very foolish.

Let me elaborate. I think there is a very significant chance – from the work that I have been involved in in the investment business – of high volumes of capital flowing into Canada, particularly from the Far East by people with a long term perspective who are really quite attracted to Canada's basic natural resource wealth. Included in basic natural resource wealth – unoccupied land – if you've ever been to Asia – now is incredibly scarce. There will be very meaningful sectoral consequences if capital inflows in the near term tend to drive up the Canadian dollar relative to the U.S. dollar, and the sectoral impact is likely to further aggravate a tendency for Canada to move, not to its created comparative advantage, but its natural comparative advantage based on resources. There are also some rather meaningful regional consequences that could impact very significantly in terms of manufacturing prospects right here in Quebec.

Let me close. In my view, the deal that appears to have been struck leads me to believe that we have reduced the opportunity for Canada to say "no". I feel that economists have got to come to grips with the issues I have raised in terms of evaluation.

Rick Harris has done, in my judgment, the definitive work of this generation of economists on the issues*, but Rick Harris has some undocumented assumptions in there too. He must go back and look at some of his assumptions, and I am sure he would be the first to agree to that. The United States set the deadline for us in the agreements in process. Now I believe that Canada should say to the United States, "finalize the deal you would sign, United States, and then let us find out whether our people want to accept it". That is a rather easy thing to do, and nobody to my knowledge has basically recommended it.

Let us see what the United States will accept, then give us a chance as a people to have a referendum on this issue. If a referendum is held in Canada, all I can say in conclusion is that I hope that the losers would have the grace and the maturity of the losers following the Quebec sovereignty referendum. There was nothing that made me feel prouder in being a Canadian than the manner in which that debate was carried on, and the manner in which the people behaved after it was settled. There is nothing that makes me less pleased today with being a Canadian than the manner in which the debate about Canada and the United States is being carried on in many circles in this country.

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* Harris, R. and David Cox, Free Trade, Industrial Policy and Canadian Manufacturing (Toronto: Ontario Economic Council, 1994).

VI

Some Free Trade History

The Men That Corrupted Everyburg: American Farmers and the Free Trade Initiative, 1911

Tom Velk and A.R. Riggs

In 1900 Mark Twain published a provocative short story entitled "The Man That Corrupted Hadleyburg." With obvious malicious intent the celebrated author attacked an American community, the very model of a self-righteous rural enclave that claimed to be incorruptible. Twain helped in his story to inaugurate the era of the "muckraker," Theodore Roosevelt's word for the crusading writer who committed the United States, in mass-circulation magazine and newspaper, to more than a decade of gut-wrenching, soul-searching exposure, accompanied by an almost obsessive addiction to the guilt feelings engendered by the revelations.

Muckrackers uncovered scandal, corruption and injustice in American life. As shock troops for the progressive reform movement embraced by Presidents Roosevelt, Taft and Wilson, they investigated government misbehaviour at all levels, labour union abuses, immigrant ghettoes, the waste of natural resources, discrimination against women and blacks, profit-seeking charlatans in the professions, and especially the machinations of the so-called robber barons, business magnates and corporate moguls who were the chief targets of reformers everywhere. By the end of the muckraker era, 1911, while Abraham Flexner was compiling a report for the government on the nation's healing profession – a shocker for even those who seemed immune to further outrage – nothing, not even the family doctor, was considered sacred.

Except the family farmer. The last representative of the kind of morality that once provided Twain's Hadleyburg with its source of false pride, he was enjoying a half decade of prosperity. From 1909 to 1914 the overall standard of living in rural America was so

high that these years may be termed "the golden age of agriculture," the period from which price parity – a decent standard of living – is computed even today.

Gone for the farmer was the bitter memory of the last terrible depression and the Populist crusade against big business domination in the 1890's. Gone also by 1911 was the panacea of free silver. But the farmer, considered the backbone of the American experiment, had not forgotten traditional enemies. Many joined the progressive reform movement, which sought to curb the power of the "special interests" by lowering or abolishing their tariff walls, raising their taxes and annoying them with antitrust initiatives.

The chief farm organization of the era, lobbying for specific measures of reform after 1905, was the National Grange, Patrons of Husbandry, which steadily increased its numbers from 298,200 in 1905 to 502,322 paid-up members in 1911, with 7,500 locals scattered across 28 states.[1] The National Grange no longer enjoyed the clout and prestige in politics that it could employ in the 1870's, but by 1911 it once again spoke in a voice to be respected. Exercising its authority through a vast network of State Masters, a National Master elected by annual assemblies, and a standing "legislative committee" for purposes of lobbying, it fielded no candidates in politics, but it was capable of flooding Congress with speakers and petitions signed by thousands on short notice.

The voice of the Grange in politics in the early twentieth century was largely that of one man, Nahum J. Bachelder, a former governor of New Hampshire and Master of the National Grange from 1905 to 1911. Raised on a small farm in East Andover, New Hampshire, clever, acquisitive and largely self-educated, he turned his father's subsistence homestead into a profitable enterprise through good crop management and innovative marketing. This recipient of an honorary degree from Dartmouth College accepted the leadership of the New Hampshire State Grange in 1891 and was Master for twelve years. Involved also in Republican politics, Bachelder was inaugurated governor of his state in 1903.[2]

At the sessional meeting of the Grange, held in Atlantic City, New Jersey in 1905, the former governor was elected National Master, an office he occupied for six years. Also chairing the executive and legislative committees, and aided by former National Master Aaron Jones of Indiana, and State Grange Master T.C. Atkeson of West Virginia,[3] Bachelder was now poised to bring the kind of creative thinking to his organization that he had once applied to his father's farm.

Unlike many of his midwestern counterparts, Bachelder harbored no particular revulsion for trusts and "special interests." On the contrary, he confessed in his memoirs the pride he felt when seated at table opposite the president of the National Association of Manufacturers (James Van Cleve, dreaded enemy of the farmer and organized labour), at the New York City residence of the legendary "robber baron," Andrew Carnegie.[4] Dazzled by powerful men he met while governor, obviously embarrassed and intimidated by his own lack of formal education, Bachelder later labeled one section of his memoirs, "Distinguished Men I Have Met."[5]

In 1905 the new and impressionable Master of the National Grange encountered two impressive men from New York, and forthwith linked the fortunes of his organization to that of their firm, Allen & Graham. Joseph H. Allen and Whidden Graham, of 11 William Street, New York City, were a shrewd team of professional lobbyists, although Bachelder naively believed as late as 1911 that they were also lawyers.[6] Allen and Graham did not want the money of the National Grange, which was always strapped for funds. Their services, in fact, would cost the farmers nothing – except their good name and the efforts of Bachelder when called upon by Congress to testify in support of or against legislation of his own choosing. Allen and Graham would plan the legislative campaigns, provide the Grange locals with petitions and memorials, attend enough annual meetings of the Grange to keep up with farm issues, and solicit their own considerable fees from other interests also wishing to see such legislation passed or defeated.[7]

Allen and Graham possessed the necessary contacts for their joint enterprise. Since 1900 the firm had served many distinguished clients in their New York offices, which were situated, as Graham later testified, "about 100 feet" from Wall Street.[8] Allen, the senior partner, had dealt with a number of important firms – Standard Oil, the Cottonseed Oil Trust and the Whiskey Trust, among others – when he worked before 1900 as a customs drawback broker. Graham, a Canadian from Nova Scotia, began his career as a newspaper reporter and always prided himself on his writing skills.[9] Senator William J. Stone of Missouri claimed that Allen and Graham had "hypnotized" Nahum Bachelder and Aaron Jones, the Governor's predecessor as Master of the National Grange.[10]

By July 19, 1911, nobody knew more about the activities of the two New York lobbyists than Senator Stone, who had accepted the task of shepherding a Canadian-American free trade agreement through the Finance Committee of the United States Senate. A methodical, persistent, even-tempered man, a man not easily ruffled, Stone had also vowed to get to the bottom of the Allen and Graham connection.

The Senator from Missouri soon discovered that Bachelder and his organization had arranged the chief opposition in Congress to reciprocity from the start.[11] The link between Allen & Graham and the Grange, however, was known to few when President William Howard Taft submitted his pet project, "the most important measure of administration,"[12] to Congress with great fanfare on January 26, 1911.

Congress seemed enthusiastic. According to its proponents, the reciprocity agreement promised a healthy increase in trade for both countries. With the exception of Great Britain alone, Canada was then the chief trading partner of the United States, and the balance of trade situation greatly favored American exports. In 1910 Canada bought goods in the amount of $242,000,000 and sold the United States goods, mainly raw materials, in the amount of $97,000,000.[13]

There is ample evidence to show that in the United Stated by 1911 progressive anti-tariff attitudes had gained broad acceptance among the people.[14] But Canadians remained in a protectionist mood. Thus the final draft of the reciprocity agreement

allowed Canada to continue her levy on many manufacturers, while most agricultural products, fish, wood pulp and paper were to be duty free.

Canadian goods, therefore, would enjoy access to the United States in many instances, where they threatened American producers. Some of these unprotected American interests, including farmers who belong to the Grange, claimed that they believed in free trade. They had opposed the Payne-Aldrich Tariff of 1909, one of the highest in American history, which made hundreds of concessions to special interests and raised the prices of domestic goods. On the reciprocity deal of 1911, however, many farmers changed their views, agreeing with Republican insurgent lawmakers from farm-belt states bordering Canada. Senator Coe I. Crawford spoke for millions of farmers when he said of free trade:

> Canada herself makes this impossible. It is her firmly established policy to build up her own manufacturing industries under a protective tariff, and we can not persuade her to change her policy..it will give to Canada free admission into the markets of the United States for her farm products without a sufficient "quid pro quo." She will have secured what she wants without giving us anything in return.[15]

When President Taft's agreement was brought into Congress late in January 1911, National Grange Master Bachelder quickly moved his partisans to action. Telegrams were dispatched to his legislative committee, and a meeting arranged with Allen and Graham at the Manhattan Hotel, New York City. There they hastily drafted a petition with a covering letter. All Grange locals in the country, some 7,500 of them, from Maine to Oregon, were urged to contact their members of Congress. The free trade message of the President to Congress was reproduced with critical commentary and included in the packages, which carried the frank of Senator Jacob H. Gallinger, a member of the Grange. In other words, much of the material that left the post office at Concord, New Hampshire, went out at the expense of the taxpayer.[16] Soon petitions were flowing by the hundreds into Congress, cluttering the Petition and Memorial section of the *Congressional Record*.

Eight to ten high level Grange meetings took place with Allen and Graham in New York and Washington to map out strategy to fight Canadian-American reciprocity.[17] A hostile reaction seemed appropriate, and the aggressive stance of the Grange leadership included dispatching 7,000 copies of the Reciprocity Agreement, mailed under the franking privilege of Senator Gallinger, and the dispersal of 25,000 copies of a speech by Senator Porter J. McCumber (North Dakota) against the pact.[18] By February 5 the word was out in *The New York Times* that the Grange would oppose the agreement, and on February 14, 1911, Governor Bachelder released to the press a letter he had sent the day before to Secretary of Agriculture James Wilson. The tone of that letter indicates that it was probably drafted, or at least revised, by Whidden Graham, who showed no inclination to defer to political leaders:

> We understand that you are a protectionist. What kind of protection is it that would compel the farmer to pay from 40 to 60 per cent duties on everything he buys, and subject him to free trade competition in farm products which can be produced more cheaply in Canada than in this country?[19]

This letter concluded that the Secretary of Agriculture had been "deceived by the special interests, which have cunningly plotted to allay the country-wide clamour for an honest revision of the tariff by making the farmer the scapegoat for the sins of the high protection system."[20]

In the meantime, despite the opposition of pro-farmer, progressive members of the House of Representatives, a wave of petitions and memorials and adverse testimony from New England fishermen, lumber interests, makers of print paper and the American Protective Tariff League, the House of Representatives passed the agreement on February 14, 1911, by a resounding vote of 221 to 93. The bill failed to emerge from the Senate by the end of the session, however, so President Taft called an unusual special session, to convene on April 4, 1911. As expected, the House of Representatives repassed the bill on April 21, 1911, by a vote of 268 to 89. The Senate Finance Committee was scheduled to begin hearings on the measure on May 8.

The Grangers determined to make their last stand at the Senate Committee and to intensify press coverage. Bachelder, among others, was to testify on the opening day, one of nearly sixty spokesmen who eventually took the floor for the farmer. A Granger press release from Concord, New Hampshire, dated May 4, urged farmers through the country to send representatives to Washington to attend the Committee hearings. Master Bachelder was quoted as saying,

> The farmers are particularly unanimous in opposing what they consider most unfair discrimination against their interests, and if they make their wishes known to their senators, the reciprocity bill cannot become a law. Delegations of farmers from at least fifteen state granges will attend the hearings to present the views of their members on this important question.[21]

In his testimony before the committee Bachelder seized the opportunity to denounce the free trade agreement as a violation of Republican promises in 1908, and argued that American farmers could not compete on a basis of equality with their Canadian counterparts. On May 8 also, the National Grange reached out for full attention in the media to overshadow the Senate hearings.

Whidden Graham had engineered a spectacular confrontation at the White House East Room between a delegation of 25 Grangers and the President of the United States. His blunt instrument for the attack was N.P. Hull, Master of the Michigan State Grange, who ignored the rules of protocol and read a prepared text (by Graham). Its offensive tone infuriated President Taft and practically invited retaliation in one way or another.[22] The President's military aide, Archie Butt, wrote of his boss:

> . . . he had no idea what was coming and was utterly unprepared when Hull stepped into the middle of the room and began a tirade against his reciprocity policy and threatened him with the enmity of the farmers of the Northwest if he persisted in it . . . All those present said the President got madder and madder as Hull continued, and when he was finished the President practically exploded.[23]

Another who was present said, "By George, he was great!" A third noted, "I never saw the old man so mad. He was hopping, and he gave them hell." Archie Butt concluded:

> Hoover (The White House usher) tells me the President was as red as a beet before Hull had finished, and when the President had finished, he was pale with excitement. He hammered Hull and his fellow Grangers well and told them he did not care whether he was reelected or not, that he would continue to push reciprocity with canada, despite whether he was renominated or reelected.[24]

Perhaps the President would have truly exploded had he known that a Canadian placed the offending words in Hull's mouth. That intelligence reached the White House a day or two later in a report from Charles M. Pepper, a trade negotiator for the President:

> I have given the New York Herald the name of a firm of lawyers who are engineering the 'spontaneous' movement of the grangers, for consideration, and the Herald may find something of interest in that connection before long.[25]

The result was an article in the *Herald* on May 11, attributing Grange tactics and propaganda to Whidden Graham and Joseph Allen. The informer, according to the story, represented a business firm, a potential victim of free trade with Canada, who was approached by Allen for a subscription to help advance the Grange campaign.

The next day, as the Senate Committee hearings continued, and with the temperature of the hottest summer on record hovering outside at 94 degrees, Senator Stone moved for a subpoena to get Allen and Graham before his committee. N.P. Hull claimed they would attend voluntarily, referred in testimony to the *Herald* story, and argued that the Grange had sought technical and legal assistance from Allen and Graham for some years past.[26] Bachelder indicated also at this time that the two were attorneys, and could not be required to reveal sensitive lawyer-client data.[27]

The focus of the Committee Hearings had now switched from the examination of an international trade pact to the integrity of a national farm organization claiming to represent over 7,000 American communities and half a million members. The implications were clear: if Allen and Graham lobbied for Grange-related legislative action, and accepted remuneration only from Wall Street business interests, who also stood to gain, were not the farmers compromised?

National Grange Master Bachelder denied any wrongdoing, saying that the action of his group had been "open and above board and in accord with the unanimous wishes of the members."[28] In a written statement delivered to the Senate Committee Bachelder revealed what the anti-reciprocity campaign had entailed, and added:

> I have put this statement in writing because I believe that the summoning of Messrs. Allen and Graham before your committee has been instigated by the newspapers for the sole purpose of trying to discredit the National Grange and its representatives who appeared before you to protest against the reciprocity scheme, by sending out garbled reports of any testimony that might be given.[29]

Bachelder explicitly denied that his campaign against reciprocity "was instigated by what is called "Wall Street" influences." He claimed as well that all his letters of explanation to newspapers were ignored.[30] On May 15, according to the *New York Times*, the Grange Master called the press universally biased and asked for a Senate investigation of the activities of the American Newspaper Publishers Association, which he claimed stood to enrich itself through free trade with Canada in newsprint paper.

The remainder of the month of May at the Senate Committee Hearings was taken up mainly with arguments pro and con by representatives of various interests. Everybody realized that Allen and Graham must come forward. In other words, all knew that Senator Stone would renew his demand for subpoenas. On May 25 the Senator from Missouri got into a heated argument with Senator Jacob H. Gallinger, protector of the Grange from New Hampshire, when Stone moved that Allen and Graham be forced to testify, bringing with them all literature and correspondence they possessed regarding Canadian reciprocity. To no avail Senator Gallinger strenuously objected, saying that anyone had a right to oppose passage of a bill. Telegrams were sent out.[31]

Testimony by Allen, Graham and Bachelder on May 31 satisfied the curiosity of those who had followed the hearings with increasing disbelief regarding an organization that considered the trusts their public enemy number one. Joseph Allen's testimony under pressure was measured, discreet and respectful, Nahum Bachelder's answers defensive and wary, and Whidden Graham's unsolicited remarks defiant. According to the Montreal *Gazette*, at one point Graham attacked the American press with such acrimony that much of his tirade had to be stricken from the record.[32]

Senator Stone, obviously enjoying his role as chief prosecutor, intended to find out what legislation the Grange had actively endorsed since 1905, whether Bachelder had ever paid a cent to Allen and Graham for their services, and what business interests had promised to compensate the New York Lobbyists for their current battle against reciprocity. The object of National Grange Master Bachelder, on the other hand, was to keep the damage to a minimum, to reveal what legislation the Grangers favored in the past – a matter of public record – to admit openly his dependence upon Allen and Graham, but to avoid at all costs any discussion of fees or to admit that the New Yorkers were employed as lobbyists.

In his testimony Bachelder revealed that the connection between Allen & Graham and the Grange dated to his accession as Master in 1905. He admitted that the New York City firm had prepared petitions and other literature for and against such legislation as good-roads, the parcel post and the denatured alcohol bills, but he said the Grange was unconcerned about fees. The nature of the Bachelder defense is revealed in the following exchange.

> Senator Stone. So you, as I understand it, Gov. Bachelder, were employing two men whom you considered experts in securing the passage of legislation or preventing its passages; in other words, men who are generally called "lobbyists."?
>
> Mr. Bachelder. No.

> Senator Stone. In other words, men who are generally termed "lobbyists," and who, at the same time, were in the employ and receiving compensation from other large interests; and you permitted them to use the National Grange to accomplish things the other interests were as much concerned in as you were?
>
> Mr. Bachelder. We did not ask them . . .
>
> Senator Stone. All to be done legitimately, of course?
>
> Mr. Bachelder. We did not ask them what other interests they were working for . . .[33]

It is highly unlikely that the Master of the National Grange, who occasionally testified before Congress, did not know who compensated his friends in New York. Whidden Graham, who began his testimony with a barrage of superfluous autobiography, added "the ship subsidy bill, the oleo-margarine laws and the direct election of Senators" to the list of legislation actively endorsed by the National Grange.[34] Arguing that Allen and Graham actions were as "employees of the National Grange," Graham said that any literature his firm produced was forwarded to Bachelder in Concord to be used as he saw fit. On the bill to eliminate a tax burden on denatured alcohol, for example, Graham admitted that his office was compensated by what was known as the Whiskey Trust, but in this case, he said, the manufacturers who benefited were his employers, not the Grange. The Grange, he added, was merely giving "assistance" and thus paid for nothing.[35]

Graham also testified that for their efforts in securing oleomargarine restriction legislation his firm received nothing from the Grange. For the good-roads legislation, Graham admitted, Allen & Graham received fees from manufacturers of automobiles and other interested parties, but he refused to tell how much the compensation was, prompting the following exchange with Senators Stone and John Sharp Williams (Mississippi):

> Senator Stone . . . Do you object to stating the fee that you received for the denatured-alcohol matter?
>
> Mr. Graham. I decidedly do. I am not brought here to tell my private business for the last 10 years. I do not see what bearing it has on the question of reciprocity.
>
> Senator Williams. You have told us that you were in the business of promoting legislation.
>
> Mr. Graham. I have not. I have denied it. I have said I was not.
>
> Senator Williams. You stated that you were in the business of preparing briefs and letters and literature for the promotion of legislation.
>
> Mr. Graham. I take exception to that statement of the case. I am like any other writer . . . I am employed and paid to do it.
>
> Senator Williams. You have confessed, have you not . . .

> Mr. Graham. I have not confessed to anything, because I am not here to confess.[36]

When asked repeatedly by Senator Stone to reveal who paid his firm, and how much, Graham refused to answer, saying "if any outside interest chooses to appreciate our services by paying us we are entitled to such payment. I do not think," he added, "it is a matter for this honorable body to inquire into and I shall decline to answer any further questions on that line."[37]

The damage to the reputation of the Grange by these revelations and refusals to testify was not lost on the Senate Committee, which wanted to know what the Grange was doing at the table of the "special interests", their traditional foes from Wall Street. Senator Gallinger of New Hampshire objected finally to the line of questioning, intended, he intimated, to discredit both Allen & Graham and the farm organization. Gallinger also regretted any remarks that might discredit Master of the National Grange Bachelder, "an honorable gentleman." Graham, still defiant, concluded his testimony by denying that the Grange had any knowledge of who paid his firm. He said that if any manufacturer decided to pay them, "I shall be very glad to take it, and I have a right to take it.""[39]

As harmful as this testimony was for the Grange, even more embarrassing revelations were in store for the farmers when Joseph Allen testified. He provided damaging information for newspaper columns across the country regarding what firms and organizations compensated his New York office and how he solicited their aid. Allen, who asked to remain seated because he was not yet recovered from a severe attack of typhoid fever, was respectful and deferential towards members of the Committee. Not asked directly about fees collected he was willing to discuss, admittedly in an evasive manner, how he made use of his business contacts on the Canadian reciprocity matter:

> I think to such manufacturers as came to me I did suggest that they ought to contribute. I said it would be a pretty hard fight, probably, and it was not right that all expenses should be borne by the National Grange. But up to the present time we have received nothing except from one manufacturer, and I have no objection to giving his name except that he asked me to keep it from the committee.[40]

Allen contradicted Graham's testimony regarding the Grange's knowledge of fees by saying that the manufacturer he mentioned had gone to Bachelder first and received assurances that the National Grange did not object to the subscription. Allen also admitted that contributions were promised by Leonard Bronson, General Manager of the National Lumber Association; Arthur Hastings, of the International Paper Company and President of the American Pulp and Paper Association; William Wood, President of the American Woolen Company and Wilbur F. Wakeman of the American Protective Tariff League.[41] The Committee was asked to believe, however, that no funds were actively solicited.

Across the nation newspapers were quick to point out that both the Paper Trust and the Lumber Trust were making use of the good name of the farmers to advance their

own selfish interests. Representatives Claude Kitchin of North Carolina had it right when he stated in Congress:

> Every democrat and every Republican on this floor knows that the two great organizing forces behind the opposition are the International Paper Company, known as the Paper Trust, that controls 80 per cent of all the paper used throughout the length and breadth of this country . . . and the Lumber Trust and Timber kings of the West, who own and control over 80 per cent of the standing timber in the United States. They have organized the protected forces against it, and pretending great anxiety for the agricultural interest, have had the shrewdness to play upon the fears and alarm some of the farmers against it.[42]

Damage to the credibility of the National Grange was so extensive that the remainder of the testimony before the Senate Finance Committee was in the nature of an anticlimax. On June 5, 1911 the Committee referred the reciprocity agreement without recommendation to the full Senate. There Senator Stone reported what he had discovered, adding,

> I wonder if the farmers of this country, when they receive package after package of literature against reciprocity, know that that literature was prepared by Allen & Graham in their offices in William Street, New York, and within 100 feet of Wall Street?[43]

On July 19, 1911, three days before the Senate vote favoring reciprocity, 53-27, Stone brought into the chamber for the record an example of the latest efforts of Whidden Graham, who had "bobbed up again; this time in Canada. No pent up Utica confines his powers," said Stone, "he is ubiquitous and universal."[44] Stone wanted the following excerpts of a letter to the editor placed in the record from the *Montreal Star*:

> I have been a resident of New York for more than 20 years, and have been actively engaged during a part of that time in newspaper work, but in all my experience I have never known of such a bare-faced conspiracy by the great and wealthy newspapers to promote their own financial interests.
>
> While the reciprocity movement in this country is therefore purely a newspaper conspiracy for free print paper, I am satisfied that the real object in the minds of the President's advisers in this matter is the creation of a sentiment that will ultimately lead to the annexation of Canada to the United States.
>
> Before leaving Nova Scotia, I was inclined to favour annexation, but my long residence in this country has given me the knowledge of the corrupt political methods which prevail both in State and National Legislatures and has caused me to change my views . . .[45]

Nothing more needs to be said about Graham's understanding of corruption. In the end Canada rejected the free trade agreement, and years later Whidden Graham admitted that his firm accepted $1,000 per month plus expenses from the Paper Trust for the six-month campaign they conduced in 1911 for Nahum Bachelder.[46] That intelligence provides us with a fitting epilogue on Allen & Graham, the New York firm that tainted the Grange and corrupted Everyburg.

Notes

1. Nahum J. Bachelder, *Reminiscences and Addresses* (East Andover, New Hampshire, 1930), p. 20; L. Ethan Ellis, *Reciprocity 1911: A Study in Canadian American Relations* (New York, 1939), p. 84.
2. Bachelder, pp. 15-31.
3. *Ibid.*, pp. 20-21; "Documents Relating to Reciprocity With Canada," 62nd. Cong., 1st Session, *Senate Documents*, Vol. 5 (Washington, 1911), p. 82.
4. Bachelder, p. 42.
5. *Ibid.*, pp. 38-46.
6. *New York Times*, June 1, 1911.
7. "Reciprocity With Canada," 62nd. Cong., 1st Sess., *Senate Documents*, pp. 53-54; 82-86; 242-256; 4-6 (Testimony of Bachelder, Allen and Graham before the Senate Finance Committee). In his *Reminiscences*, p. 21 Bachelder mentions "scores" of campaigns.
8. *Ibid.*, p. 242.
9. *Ibid.*, pp. 242-43; "Obituary, Whidden Graham," *New York Times*, October 28, 1944.
10. Speech of Senator William J. Stone (Missouri), July 19, 1911, *Congressional Record*, 62nd Cong., 1st Sess., p. 3068.
11. *Ibid.*, Ellis, p. 101.
12. Quoted on Ellis, p. 92.
13. "Effects of the Reciprocity Treaty," *The Literary Digest*, XLIII (August 5, 1911), 191.
14. See Tom Velk and A.R. Riggs, "Reciprocity 1911: Through American Eyes," in A.R. Riggs and Tom Velk, *Canadian-American Free Trade: Historical, Political and Economic Dimensions* (Ottawa, 1987), pp. 23-31.
15. *The Congressional Record*, 62nd Cong., 1st Sess., p. 1039.
16. Testimony of Nahum Bachelder, "Reciprocity With Canada," 62nd. Cong., 1st Sess., *Senate Documents* Vol. 5 (Washington, 1911), p. 52. See also Ibid., p. 243, Testimony of Whidden Graham, and *Congressional Record*, 62nd Cong., 1st Sess., p. 3074, Testimony of Joseph Allen.
17. *Ibid* ..*Congressional Record*, p. 3074.
18. "Reciprocity With Canada," *Senate Documents*, p. 52.
19. *New York Times*, February 14, 1911.

20. *Ibid.*

21. *The Gazette* (Montreal), May 5, 1911.

22. Whidden Graham admitted in an interview in 1936 that he planned the confrontation with President Taft and wrote the prepared text for N.P. Hull. See Ellis, p. 122, fn. 35.

23. Archibald Butt, *Taft and Roosevelt:* The Intimate Letters of Archie Butt, Military Aide (Garden City, N.Y., 1930) II, 643.

24. *Ibid.*

25. Ellis, p. 122

26. "Reciprocity With Canada," *Senate Documents*, p. 292.

27. *New York Times*, June 1, 1911.

28. "Reciprocity With Canada," *Senate Documents*, p. 52.

29. *Ibid.*

30. *Ibid.*

31. *Ibid.*, pp. 255-57.

32. *The Gazette* (Montreal), June 1, 1911.

33. "Reciprocity With Canada," *Senate Documents*, p. 85.

34. *Ibid.* pp. 244-46.

35. *Ibid.* p. 245.

36. *Ibid.* p. 251.

37. *Ibid.* p. 253.

38. *Ibid.* p. 255

39. *Ibid.* p. 257.

40. *Congressional Record*, 62nd Cong., 1st Sess., p. 3074.

41. *Ibid.*, pp. 3074-75.

42. *Ibid.*, April 15, 1911, p. 287.

43. *Ibid.*, p. 3069.

44. *Ibid.*

45. *Ibid.*

46. Ellis, p. 124.

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Canada-U.S. Free Trade: The Issues, Historical Context and Economic Dimensions

Edited by A.R. Riggs and Tom Velk

These papers presented at a conference in Montreal in November 1987 examine the elements of the Canada-U.S. Free Trade Agreement reached in Washington in October 1987. The contributors include historians, economists, business leaders, government officials and trade policy specialists from both sides of the border:

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